

IN THE COURT OF THE TRANSPORT TRIBUNAL

TRANSPORT ACT, 1947, AS AMENDED BY TRANSPORT ACT, 1953

IN THE MATTER OF THE APPLICATION OF THE
BRITISH TRANSPORT COMMISSION (1960 No. 2)

FOR THE ALTERATION OF THE
BRITISH TRANSPORT COMMISSION (PASSENGER)
CHARGES SCHEME, 1959

AND

IN THE MATTER OF THE APPLICATION OF THE
BRITISH TRANSPORT COMMISSION (1960 No. 5)

FOR THE ALTERATION OF THE
BRITISH TRANSPORT COMMISSION (PASSENGER)
CHARGES SCHEME, 1959

TUESDAY, 21st FEBRUARY, 1961

NINTH DAY



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PROCEEDINGS OF THE TRANSPORT TRIBUNAL

TUESDAY, 21st FEBRUARY, 1961

PRESENT:

SIR HUBERT HULL, C.B.E. (*President*)
J. C. POOLE, Esq., C.B.E., M.C.
H. H. PHILLIPS, Esq., O.B.E.

Mr. E. STEWART FAY, Q.C., and Mr. T. R. CRAWFORD (instructed by Mr. M. H. B. Gilmour, Chief Solicitor to the British Transport Commission) appeared on behalf of the British Transport Commission.

Mr. R. W. GOFF, Q.C., Mr. LEON MACLAREN and Mr. GEORGE MERCER (instructed by Mr. J. G. Barr, Solicitor to the London County Council) appeared on behalf of the London County Council, Middlesex County Council and the Surrey County Council.

Mr. LEON MACLAREN (instructed by Mr. G. E. Smith) appeared on behalf of the County Borough Councils of West Ham, East Ham and Croydon, and the Borough Councils of Walthamstow and Leyton.

Mr. S. H. NOAKES (instructed by Mr. W. O. Dodd) appeared on behalf of the County Borough Councils of Brighton, Eastbourne and Hastings.

Mr. G. B. H. CURRIE, M.P. (instructed by Mr. W. P. W. Elwell) appeared on behalf of the Folkestone and Kent Coast Railway Travellers' Association and the North East Kent Railway Travellers' Association.

Mr. E. R. FARR, Town Clerk, appeared on behalf of Barking Borough Council and the South Essex Traffic Advisory Committee.

Mr. PHILIP M. VINE, Deputy Town Clerk, appeared on behalf of the County Borough Council of Southend-on-Sea.

Mr. C. W. WINNICOTT, represented the Bishop's Stortford Season Ticket Holders' Association.

Mr. F. A. RULER, represented the Federation of Residents' Associations in the County of Kent.

Mr. CHARLES SARSON, represented the Chelmsford Railway Users Association.

MR. STANLEY WILLIAM HILL, recalled

Examination by MR. GOFF continued

2381. Would you look for a moment at your SWH 1. In lines 9 to 13 there you were setting out the Central Charges; that is the Central Charges of the British Transport Commission as a whole which had to be apportioned in SWH 2?—Yes, in those lines, other than the interest items.

2382. Mr. Evershed in his evidence raised criticism about your lines 9 to 13, did he not?—Yes.

2383. Were you present and did you hear his evidence?—I heard that, yes.

2384. Have you considered what the effect would be if you gave effect to Mr. Evershed's criticisms there and amended your tables accordingly?—Yes. In the application of this method it does not alter any of the resultant figures by the requisite £0.1m. at any stage.

2385. Translating that into actual figures, when you come to SWH 2, if you had adjusted SWH 1 as Mr. Evershed desired, what effect would you get in the result on your £5.3m. in line 16?—It would remain at £5.3m. The differences between Mr. Evershed and myself on these expenses are very trivial indeed.

2386. You said at an early stage of your evidence that you regard the Commission's figures for London's share of Central Charges as excessive by at least £0.5m.?—Yes.

2387. On what were you basing that answer?—Primarily on the results shown in Tables SWH 1, SWH 2 and SWH 8.

2388. What do you say as to the standard of accuracy of the result when you worked in accordance with your Tables SWH 1, SWH 2 and SWH 8?—I think it is to a fine point of accuracy; it is not absolute accuracy, because one is apportioning certain figures and in an apportionment of that kind you cannot get absolute accuracy, but I think this is an exercise which gives you a result to an acceptable point of accuracy, probably to the degree of £0.1m.

2389. It has been done, at any rate on previous occasions, on what is described as the specific approach, has it not?—Yes.

2390. What do you understand by "the specific approach"?—The treatment of the London Transport Undertaking as a separate part of the B.T.C. Undertaking. It is a separate undertaking.

2391. Treating that as if it were a separate undertaking?—Yes. Not necessarily under different ownership. I do not think that is necessarily relevant to treating it as a separate undertaking.

2392. (*President*): As having been, and being still, a separate undertaking?—Yes, Sir. Rather like, we will say, a Local Authority with its bus undertakings, its water undertaking and, of course, its public-health services, which are all separate things. It is rather like that.

2393. (*Mr. Goff*): That is treating it as a separate undertaking as distinct from starting with the whole undertaking and adopting some method of apportionment? Yes.

2394. What are your views on the question whether it is possible to work the specific-approach method or not?—Well, it is certainly possible to work the specific-approach method, but I make no secret of the fact that I find it, and have found it, a more complicated and difficult method to apply, for one very simple reason. The only reason why it is more difficult is that the accounts have not been designed in such a way as to readily provide the figures which one wants. They could have been. I am not saying they should have been, but they "could have been"—but, if it happens, they are not, and that necessarily makes it more difficult to track through items over the years.

2395. Can that, in fact, be worked, having regard to the figures being such as they are, to the same degree of accuracy, or a higher degree, or a less degree of accuracy than your apportionment method in SWH 1, SWH 2 and SWH 8?—Things being as they are, the accounts being

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[Continued]

as they are, I would say to a slightly less degree of accuracy.

2396. Would it be sufficiently accurate, or would it not, to form a reasonable test in comparison with your SWH 1, SWH 2 and SWH 8?—Yes. In a field like this the more mathematical tests you can apply I think the more reliable are the deductions you can draw.

2397. I believe at a previous hearing a Mr. Lawson produced some elaborate tables?—He did.

2398. What method was he working by?—He was working on a specific-approach method, rather in line with, though I think more thoroughly done than, the method I employed several years earlier.

2399. Have you studied PJ 16, which was put in evidence at the previous hearing and appears at page 436 of the transcript?—Yes. I think I would be right in saying that it was put in but no evidence given about it.

2400. Yes, it was put in at a late stage, was it not?—Yes.

2401. Was that put in after the Tribunal had given their interim decision?—I am not quite certain. I know it was a very late stage.

(*Mr. Goff*): My learned friend says "No", and I am prepared to accept it from him.

(*President*): I say "No" also.

2402. (*Mr. Goff*): I had already accepted it from my learned friend, and, of course, I would accept it from you, Sir, in any event. (*To the Witness*): Have you studied Exhibit AE 6 in the present case?—Yes.

2403. AE 6 is, of course, a continuation of PJ 16, is it not?—It is, yes.

2404. What is the method adopted in PJ 16 and AE 6?—It is a specific method.

2405. What do you say, first of all generally, as to the accuracy or otherwise of PJ 16 and AE 6?—I think in its compilation there are two major errors, and there is a third factor which is doubtful—a third minor factor which is doubtful.

2406. I will discuss this in detail with you presently, but you say that there are two major errors and a minor point which is doubtful?—Yes.

2407. Have you prepared Tables SWH 3 and SWH 4?—Yes.

2408. What is the purpose of those tables?—To present this specific method with the errors, or what I am calling errors, corrected.

2409. So SWH 3 and SWH 4 are your version of the way in which you say PJ 16 and AE 16 should have been worked?—Certainly.

2410. Have you also prepared SWH 5, which contains notes on SWH 3 and SWH 4?—That is so, yes.

2411. You also prepared SWH 6 and SWH 7, I think.—Yes; they are what I would call reference tables to link up the items with the accounts.

2412. They support and explain SWH 3 and SWH 4, do they?—Yes, they do.

2413. If you look at SWH 6 you get in line 15 for the several years from 1948 to 1957 10 per cent, and they give you certain figures. Those figures are carried into SWH 3, are they not?—They are, except that I have now put them to the second place of decimals instead of the third place.

2414. They will be found in SWH 3, column 9?—That is correct.

2415. Then SWH 6 shows in line 16, 9 per cent, from 1958, for the years 1958 and 1959 £536,000 and £534,000, and they are carried, are they, to SWH 4?—They are, except that, this being an estimate table—at least three years out of the five being estimates—I have, rather in the same way as Mr. Evershed has, put what I would call a rounded figure for each year. I call it £0.55m. and his figure is £0.65m.

2416. When you said it was an estimate table, were you referring to SWH 4 or SWH 6?—SWH 4. The latter part of SWH 4 is an estimate table, the last three lines.

2417. So the £536,000 and the £534,000 become £0.55 in the second and third lines of column 9 of SWH 4, do they?—That is so.

2418. Then that same figure is carried on for 1960 to 1962?—Yes.

2419. To get this on the Record before we discuss the points which you said you disagreed, I would like to have the comparison of the results shown by AE 6 and SWH 4. Have you compiled those?—Yes.

2420. Is it the fact that for 1960 AE 6 gives £6.51m. as London's share of Central Charges, and your SWH 4 gives £5.9m.?—That is so.

2421. For 1961 AE 6 gives £7m., and SWH 4 gives £6.31m.?—Yes.

2422. And for 1962 AE 6 gives £7.55., and SWH 4 gives £6.82 m.?—Yes. That shows a more or less consistent difference of between £600,000 and £700,000.

2423. You said you attributed that difference to two main factors as to which you said Mr. Evershed was wrong and one other doubtful matter?—Yes.

2424. Which of the two matters of error you have mentioned would you like to take first?—I think the estimate of the opening entries back in 1948 as regards the funds which were taken over from the London Passenger Transport Board is the first one. That itself can be broken into two parts: One is the sum of money involved, Mr. Evershed takes one figure and I take a rather higher one; and then the second part of it is the treatment to be given to that sum, whatever it be.

2425. Taking the sum of money involved, what figure has Mr. Evershed taken?—£38.8m.

2426. And what figure have you taken?—I have taken £41m.

2427. The difference, I think, is £2.2m., is it not?—Yes.

2428. What is the subject-matter of that difference?—The subject-matter of the difference is the surplus funds of the London Passenger Transport Board other than the money in the Trust Fund.

2429. What would the surplus funds be, what sort of assets are they?—Largely cash, and to a small extent represented also by the difference between debtors and creditors; but they are cash or the worth of cash at that time.

2430. Is that what you describe in your notes to column 3 in SWH 5 as "Net current assets of L.P.T.B., £3.5m.", or is that something different?—That is, yes.

2431. So we start on the difference with the figure of £3.5m.?—Yes.

2432. Then you have reduced that by £1.3m.?—Yes.

2433. Which gives you the £2.2m. which you mentioned?—Yes.

2434. Why did you reduce that by £1.3m.?—Well, for this reason: One could argue that the whole of the £3.5m. should be brought in without further adjustment, but I reasoned this way, that at all times something needs to be kept in the coffers and cannot earn interest, being a sum required for the day-to-day working capital. In other words, every undertaking cannot put on deposit or invest the whole surplus cash, it needs to keep something for day-to-day use. So I reasoned that as we are doing an interest exercise here it would, perhaps, be unfair to claim that the whole of that £3.5m. is capable of earning interest, some part of it ought to be treated as working capital and not so available.

2435. In order to make up your mind how much ought to be treated as working capital you had to consider, did you, the need for working capital in an undertaking of this kind?—Yes.

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[Continued]

2436. What factors were present in your mind when you were considering that aspect of the matter?—Well, there are only, really, two purposes for which working capital is required in a transport undertaking of this kind.

2437. What are those two purposes?—I will put it in this way, if I may, that you must have some sum in hand to iron out seasonal fluctuations. The income in the early three months of the year is not coming in at the same rate as it is coming in in the summer months, and although it is true, no doubt, that expenses are not going out at quite the same rate, they are not so subject to the same seasonal fluctuations and therefore one needs a little working capital to tide one over the leaner months of the year. If one looks at the pattern of traffics and revenue over the months in London Transport, it is quite simple to ascertain that the maximum amount which is required for a purpose like that about £200,000.

2438. What was the other factor?—The other one is this, that one has to allow something to enable the undertaker to meet a sudden increase in expenses before he can take steps to increase his fares. There is a time lag there of, of course, we know, and a sudden wage increase has to be carried and cash has to be found to meet that wage increase until the income can be adjusted. Now, something has got to be allowed for that.

2439. In arriving at your £1.3m. did you make an allowance for that factor?—I did make an allowance for that factor.

2440. How did you work that allowance out?—I said: Let us assume an increase at the rate of £2m. a year, say the wage Award was £2m. a year, and I assumed that that could well be uncovered by increased fares for a period of four months.

2441. That gives you what figure?—That would give a figure required for working capital for that purpose of about £700,000.

2442. With the £200,000 which you mentioned before, that would be £900,000?—It would be £900,000 yes.

2443. And you have allowed £1.3m.—I did, yes.

2444. Was that because of some other factor, or merely to give you a margin?—No, it was merely to give me a margin. It might be said that four months was not quite long enough, and, in any case, I was really working to a round figure in the end of £41m., and so there was no purpose in having part of £1m. there. So to be on the conservative side, I made my £900,000 £1.3m.

2445. Do you, or do you not, consider your allowance of £1.3m. was adequate, or more than adequate?—Oh, it is generous by any test. So the position is that £3.4m. came over in surplus funds for London Transport which Mr. Evershed has not had regard to, and I am saying that £1.3m. of it is sort of sterilised, and therefore there is a difference of £2.2m. It is not a big item, but it does make some difference in the final figures.

2446. Are there any means of testing the accuracy of that figure against cash balances, in fact, carried by the London Transport Executive?—Yes. It is clear that the London Transport Executive does not nowadays need a working capital of £1.3m.; in fact, it carries cash—or it did as at December, and I have not got figures at any other date of the year—of about £400,000.

2447. You say it is clear nowadays it does not need £1.3m. Has the position changed in some way?—The position has changed by reason of the procedure, which was not in existence in 1948, whereby a provisional increase can be authorised by the Tribunal, an interim increase.

2448. Allowing for that, and testing it against what they now carry, does that cast any doubt in your mind upon your £1.3m. figure, or not?—No, it is still generous by any test.

2449. We have now shown how you arrive at your figure of £2.2m. What is the difference between you and Mr. Evershed as to this £2.2m.?—I bring it in, he does not.

2450. He leaves it out altogether?—He leaves it out altogether.

2451. In what way do you bring it in?

2452. (President): By adding it to the £38.8m.—By adding it to the £38m. shown in SWH 5 to produce a total of £41m.

(Mr. Goff): Having got it added to that, we can now go on and talk about the sum of £41m.

2453. (President): You bring it in, but Mr. Evershed, following Mr. James and Mr. Lawson, leaves it out?—Yes, Sir. Mr. Lawson referred to it in the later notes that were included in the Minutes and said that it was a matter which would need to be looked at further. He did not actually bring it in his calculation.

2454. (Mr. Goff): Just taking the £2.2m. separately for one moment, why do you say it is right to bring it in and wrong to leave it out?—What we are trying to find out here is, in the first place, interest on the capital involved in London Transport. London Transport started off with certain commitments for interest on the purchase price of the Stock, but, on the other hand, it brought over certain funds, of which this is a part, which were available for any of the future purposes of London Transport—that is future to 1948—for capital expenditure or financing deficits in the years. It becomes capital money, of course.

2455. (President): It "would have become" capital money, we must say throughout, must we not?—It is capital money.

2456. But if it had been in 1948 a separate undertaking it would have been available for general purposes?—Yes, Sir. Even if it had not been a separate undertaking it is still so available, but in the coffers of the B.T.C. as distinct from London.

2457. (Mr. Goff): But the object of the specific approach is, of course, to see what the position would be if it had been a separate undertaking?—A separate undertaking, yes; not necessarily outside the B.T.C., but a separate undertaking within the B.T.C. That is the whole exercise.

2458. Then we come to the large element in this £41m. of £38.8m. What is it?—That is the balance of the Trust Fund taken over by the British Transport Commission in so far as it related to the London Passenger Transport Undertaking.

2459. What is the difference between you and Mr. Evershed there?—As to the amount there is no difference.

2460. No, but there is a difference as to what you do with it?—Yes, I think you must go back to PJ 16.

2461. (Mr. Goff): That is at page 436, Sir.—Yes, of which Mr. Evershed was not the author but which he adopts. I would just make the point, if I may, lest the question arises—it was not put before, because this was not proved and there was no opportunity to question it at the time.

In the construction of Exhibit PJ 16 Mr. James had—well, I do not want to use an offensive word—invited a transaction; let me put it that way. What he did was to say: Let us assume that the trust funds were in some way used to reduce the amount of British Transport Stock which was issued; it is a sort of deeming transaction.

I must admit that when I first saw that I could not see any reason for it at all; it is something that did not happen, and I could see no reason therefore for giving that entirely artificial treatment, but the reason becomes apparent when one looks at the later years. These trust funds were not in fact applied then in reducing the amount of Stock issued, which amount was laid down in the Transport Act of 1947; nor were they applied at any later stage in buying back any Stock. They were money—money and investments, or money's worth—and they were so held by the British Transport Commission, and some part of them, I suppose, are still held; I do not know, but I do not think it matters very much.

2462. I will ask you later about what you saw in the later years which showed the reason; but you say that Mr. James adopted in PJ 16 what you describe as a "deeming" transaction?—Yes.

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[Continued]

2563. Would you just look at Exhibit PJ 16 and show the Tribunal where that appears and what effect it has upon the figures; first of all, is there anything in the notes which deals with it?—Yes, it is dealt with in the notes.

2564. Would you point out what part of the note deals with that?—It is the second part of Note No. 1 on Exhibit PJ 16; after having established a figure for the interest on the Stock which was issued plus the interest on the London Electric Line—that is the 4.49m.—there is this note: "Less interest at 3 per cent. on net balance of Trust Fund moneys taken over by British Transport Commission on acquisition of London Passenger Transport Board (after allowing for repayment of loans from Trust Fund and London, Midland & Scottish Railway)"—nothing turns on that item in brackets, I think—"it being assumed that to this extent the British Transport Commission were able to avoid issue of capital Stocks".

2565. So on that account a deduction of £1.16m. was made, which gives you £3.33m., and that is carried, is it, into column 1 of the table?—Yes.

2566. If you compare that with your Exhibit SWH 3, the item in column 1 of your table is £4.86m.?—Yes.

2567. What causes that difference?—The interest on this £38.8m.

2568. That is because you have not deducted the interest on that?—That is correct. There is another little difference arising on the transferred lines, if you want a complete reconciliation.

2569. Yes, I shall have to deal with that; it is the second feature?—Yes.

2570. Not having deducted the interest on it, how do you bring it into account in SWH 3?—I treat it for what it was, as a balance of money in hand on nationalisation, £41.0m., of which the trust fund is the £38.8m.

2571. So you get that in column 3 of your Exhibit SWH 3?—Yes.

2572. Before asking you for your reasons why you say that is the right way to do it, could you describe what the effect is upon the two calculations, of doing it in the respective ways, in the one case reducing the initial debit for interest but not crediting the fund, and in your case starting with a higher debit for interest, but crediting the fund?—Yes. First of all, I would say that it looks innocuous enough in the first line of PJ 16, because at that time it was all 3 per cent. But the answer lies in the fact that since 1948 we have proceeded through progressive interest rates until now we are at 6 per cent. The effect of this artificial, or seeming, transaction is to give permanently to these funds that were taken over a 3 per cent. earning capacity and nothing more; whereas if they are treated as funds available for capital expenditure, then of course whatever fund existed at the appropriate time, it is worth its appropriate rate of interest. So what Mr. James did in effect was to say that there is here some £38m. to £40m.; I will credit London for ever with 3 per cent. on that, but as London needs more and more capital I will charge it as 4 per cent., 5 per cent., 6 per cent., and so on.

2573. And is that what is done in PJ 16 and AE 6?—Yes. I hope I am not complicating this, but simplifying it, by putting it in the form of a very simple example. If you have £100 to begin with and at that time the interest rate is 3 per cent., if during the course of 10 or 12 years you spend £200 and at that time the interest rate is 6 per cent., Mr. James's method of treating those two factors would be to charge London with 6 per cent. on £200, but credit London with only 3 per cent. on £100, so he would be charging London with £9, namely 6 per cent. on the £200, which is £12, less a credit of only 3 per cent. on £100 which is £3, a net charge of £9.

But, of course, if you start this transaction with a fund in hand of £100, and you spend £200, all you are really having to borrow from anybody else is £100, and you borrow that at the current rate, which I accept as 6 per cent., and the charge is £6. So the effect is to give London the worst possible return on its money, but to charge it with the maximum charge for any new money that is required.

2574. Is that translated into SWH 3 and SWH 4?—That is translated into SWH 3 and SWH 4 in that what I have done is to treat this as what I think it was, namely moneys in hand.

2575. And then, when you have capital expenditure in the year, how do you deal with that?—All the time you are drawing on these funds.

2576. Now you said that when you first looked at it you could not see any reason for it at all, but that you did see something in it in the later years; is that what you have just been describing?—Yes. I could not see any reason why Mr. James should have sort of invented this quite artificial transaction, and it is only when I came to look for the figures in the later years that I could see why he did it.

2577. (President): But the whole transaction is an artificial transaction, is it not, Mr. Hill?—With respect, Sir, I do not think so.

2578. I have never been able to see that it is anything else—You mean the conception of London as a separate part?

2579. Yes.—Yes, but this being an exercise that included the conception of London as a separate part, there is nothing artificial in the treatment of the funds.

2580. (Mr. Goff): Let me get quite clear what you are saying about the effect in the later years. The effect is that PJ 16 fixes that fund with 3 per cent.?—Yes.

2581. Whereas your method gives London a credit on the fund at the interest rate for the time being?—Only 3 per cent. until it is exhausted. It means that London does not start with raising money at 4 per cent., 5 per cent. or 6 per cent. when it in fact has some money in hand.

2582. So it gets the advantage that you do not charge the higher rate of interest until the trust fund is exhausted?—Yes, that is so. One could argue further on that; one could say that the B.T.C. for this exercise should be deemed to have paid the current rate, but I think that would be taking it too far, and I have not argued it.

2583. So you credit London with 3 per cent. of the fund as long as it is there, but you do not charge London on the higher rate of interest until the fund is exhausted?—Yes, which is just what would have happened if London had been a separate part.

2584. Now will you give your reasons as to why you say that is the right way of carrying out this hypothetical test and why you say that PJ 16 and AE 6 are not the right method?—First of all because it is not true that the initial Stock position, whether for London or for any other part of the Commission, was in any way abated by those funds. The Stock was issued on the formula provided in the Transport Act of 1947, which had regard to the market prices of the securities of the transferring undertakings. So it cannot be said that the Stock was reduced in the way that Mr. James supposed or deemed.

2585. Yes; if you have to take a hypothesis and treat London as a separate undertaking, in your view does it more accurately represent the picture of it as a separate undertaking if you do it in your way or in the way shown in PJ 16?—Oh, my way is the one that most closely follows the actual facts.

2586. Have you any other reasons as to why you say you are right and they are wrong?—Yes; I have said that these sums were not actually applied in reducing the amount of Stock issued in 1948; neither in fact were they applied in reducing the amount of Stock issued several years after 1948.

2587. What is the significance of that?—It really means that Mr. James's deeming transaction was neither right in 1948 nor was it put right in the years that immediately followed 1948.

2588. So you are saying that there is nothing in subsequent history which would justify the initial way of dealing with it in PJ 16 if it was not the right way to start with?—That is so. It is true that at that time the British Transport Commission were coming on the market for

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money, and I suppose it would have been arguable, if they had not had this money in the London funds, that they would have had to come for more money than they did; but it was in 1955 when that happened, and by that time they were paying over 4 per cent. for their money. So even if one stretched it to the limit and assumed that the deeming transaction came about at the same time, although obviously it did not come about in 1948, you would be quite wrong in giving 3 per cent. on it, because it should have been over 4 per cent.

2589. In your view is there more than one acceptable basis for carrying out the exercise of treating the London Transport Executive as a separate undertaking so far as this £41m. about which we are talking was concerned?—I think this item must only be treated for what it was.

2590. You think this is the only way of dealing with this particular item?—I can see no other way.

2591. And then you mentioned, and I stopped you at the time—

2592. (President): Before you do that, Mr. Goff, may I be quite clear about this. (*To the Witness*): There are two points which arise on the £41m. liquid capital taken over, as you have pointed out; the first is whether the £41m. is the right figure, and the second is whether it should be dealt with in your way or in Mr. James's way?—Yes, Sir.

2593. They are two separate questions?—Yes.

2594. If the £41m. is wrong and the £38.8m. is right, it is a question of whether you should treat it in the way in which you have treated it, or in the way in which Mr. James has treated it; they are two quite separate questions?—Yes, and at a later stage I will qualify the value I have put on those two separate parts.

2595. (Mr. Goff): Yes; I am going to ask you to sum up the effect of it later. But you did say that to be complete there was another matter to be taken into consideration in dealing with this point of difference; what was that?—That was the treatment of the transferred lines.

2596. When you say "the transferred lines", you mean lines which were acquired by the Commission, but went to the London Transport Executive?—Yes.

(President): By "were acquired by the Commission" you mean from someone else other than the London Passenger Transport Board. Of course, the Commission has acquired everything?

2597. (Mr. Goff): I am much obliged, Sir; that is obviously a more accurate way of putting it than the way in which I have put it. (*To the Witness*): What is the difference between you and Mr. Evershed on this point?—It is very similar to the other one that we have just been dealing with. Mr. James again introduced a deeming transaction; he said: "Let us assume that these lines were paid for in cash", whereas in actual fact they were not paid for in cash; they were paid for in Stock. Therefore, in his calculation he treats it as capital expenditure in the first year and says that it is as from the January of that year. That is the first figure in column 2 for 1948 in PJ 16, the £12.2m.

2598. When you compare that with your Exhibit SWH 3, what did you do with this?—I brought it into the amount of Stock on which interest is calculated and which is included in the figure of £4.86m. for 1948 and later years as explained in—

2599. Would that be one of the notes in SWH 5?—That is the second part of Note 2, with reference to column 2; you will see there the figure of £4.49m.—it is the £0.37m.

2600. The £4.49m. is the same as the £4.49m. in the note to PJ 16?—Yes.

2601. And that is the Stock issued on the acquisition of the London Passenger Transport Board undertaking?—Yes.

2602. And a certain loan, with interest, of £33.4m. invested on surplus lands?—Yes.

2603. There is no issue between you on that?—No.

2604. What you have done is to increase the debt interest by an appropriate sum in respect of Stock issue on acquisition of the Main Line Railway Companies?—Yes.

2605. And you say 3 per cent. of book value, £12.2m.?—Yes.

2606. So you have both taken book values?—Yes. For my purpose I do not know how much Stock—it is impossible, of course; it is all part of the total Stock—and neither does Mr. James nor Mr. Evershed know what was the appropriate value at which to transfer these things.

2607. So there is no issue between you as to the amount of Stock to be treated as involved in this particular transaction?—To be precise, there is no issue on the figures.

2608. But the difference is that Mr. James carries that figure in as a cash payment in PJ 16, whereas you add interest on it to the debit, instead of interest on Stock?—Yes.

2609. Would you now say why you consider that you are right on that and why Mr. James and his successor are wrong?—Because again, consistent with what I have done with the larger item, I have followed the transaction as it was and did not deem it to be dealt with in an entirely different way. No cash was paid out to anybody by reason of the transfer of these lines from the Main Line Railway Companies to the London Passenger Transport Board undertaking.

2610. (President): And equally no obligation was undertaken by the London Transport Executive?—No obligation was undertaken. What we are doing is to divide the British Transport Commission into two parts, and this is the part which falls to the London Transport undertaking; but I must admit that there is no separate legal undertaking.

2611. (Mr. Goff): You did speak of two main matters which you said are errors; have we been dealing with two parts of one matter, so that there is another matter now to be considered?—Yes.

2612. Then what is the second main matter in which you say that PJ 16 and AE 6 are wrong?—In the calculation of the amounts of interest on deficits. I think if I take Table PJ 16 and draw the attention of the Tribunal to column 14, that is headed "Interest on accumulated surplus or deficit". It is not quite a full heading, although I have used precisely the same one myself, and the same criticism could be made. It consist really of two parts, as Mr. Evershed made quite clear; it is the interest on the accumulated surplus or deficit up to the end of the preceding year and it is half a year's interest on the deficit or surplus incurred in the year to which the interest calculation relates.

2613. It is half a year's interest on the surplus or deficit arising in the year to which the interest relates?—Absolutely. To put it simply, if the accumulated deficit up to the end of the previous year was £10m., and if in the course of the year with which we are dealing a further deficit of £5m. was incurred, the calculation is really interest on whatever rate is applicable on £10m. for a year and for half a year on the £5m., or if you like it for a full year on half the £5m., which is one and the same thing.

2614. What do you say ought to be done?—That approach is quite correct provided that one uses the right figures. In relation to the first part, namely interest on the accumulated deficit to the end of the preceding year, there is no question.

2615. You do not quarrel with that?—That is quite simple, and there is no quarrel with that. It is in dealing with this half-year's interest on deficit, or in a few cases on surplus, of the year current that I think we respect that both Mr. James and Mr. Evershed were wrong. By taking interest for half a year on the whole of the deficit in that year, or by taking interest for a year on half the deficit, whichever way you do it, it makes no difference,

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but I keep mentioning it, because I think it will help. That is valid if the several items that give rise to that deficit are coming in over the year and going out over the year in a more or less constant flow. It is not meant to be a precisely constant flow, but if the income came in day by day, week by week, and year by year, and then the expenditure goes out evenly over the year, then it would be valid.

2616. When you say that is valid, has it a bearing on the fact that you take a half-year's interest on the whole deficit or a whole year's interest on half the deficit?—Yes. If all the items were going in and coming out in that constant flow, the mean deficit for the year would be half the deficit for the whole year.

2617. So the half comes in through getting the mean deficit? — Yes, and that would be a perfectly valid method of doing it if that daily flow were right. But, of course, it is wrong in one important item, namely that the interest which is payable as it is already half a year in arrear—all interest in these things is as near as makes no matter half a year in arrear—and it is not true to say that if there was a deficit incurred in the year of £5m., the true mean deficit that would earn interest in the year is £2.5m. Indeed, it is very false to say that because one has to allow for the fact that in striking that figure of a deficit of £5m., the major factor which gives rise to that is the interest item which does not involve the payer in incurring further interest until he actually pays the interest.

2618. Then how do you say the interest calculation should be adjusted to give effect to that point?—There is a very well recognised method to be used for this purpose, and one has used it time and time again. It is to take half the income, to take half the expenses other than formula for this purpose. That gives you the true mean interest and a quarter of the interest; that is the recognised deficit which would incur interest.

2619. Why do you take a quarter of the interest?—Of the interest outgoings in the year you are only out of pocket for half a year's interest for half a year, and therefore it is a quarter of the interest which should bear interest.

2620. You spoke about that as being a well recognised method of doing it; is this point of change on PJ 16 which we are discussing something which you have thought about for the purposes of this case or not?—No, indeed. As I say, it is a well recognised method; I have employed it literally hundreds of times when estimating the working capital of a business, and it was employed extensively in the compensation cases for coal nationalisation, when one had to make an estimate of the working capital required. In fact, I would say that it is a recognised accounting method, which I have certainly used for 20 years.

2621. Have you a simple analogy which might illustrate this point? — Yes, I think so. Would you imagine a business which just covers its expenses, including some mortgage interest payable on the 1st July and the 1st January, or at midnight the night before—it does not matter. The hypothesis here is that of a business which just pays its way, including this interest; in other words, in the course of a year it makes neither a deficit nor a surplus. Yet the fact is that throughout every one of the days of that year, or at least for 364 out of the 365, it would be in credit at the Bank and would be earning interest on that credit, and it is simply this, that the money is coming in daily and it is going out daily to pay bills other than interest. Therefore, at the end of the 1st January there is a little bit in hand, and at the end of the 2nd January there is a bit more in hand, and so on and so on and so on, until on the 30th June there is just in hand the amount which is required to pay the interest which is due on the 1st July, and for that one day, the 1st July, there is nothing in the Bank at all.

2622. Because you have accumulated enough to pay the interest and you have then paid it?—Yes. On the 2nd July the process repeats itself again; there is a little bit, a bit more, and then a bit more, and the result is that in that Bank Account there is a credit balance for 364 days out of the 365, and on this hypothesis that would earn interest. But by employing Mr. James's and Mr. Evershed's

method, they say there will be no interest there; I take it that there is no profit or loss; I divide by two; that gives me nothing, and therefore there is nothing to bring in. I think that is a definite error in principle, or it may be an oversight; I do not know.

2623. Have you worked out an example with hypothetical figures, so that we can see how this works?—I did in some notes for you, Mr. Goff; I have not the table before me now.

2624. Will you just have a look at this? (*Document handed to the Witness*). Is that a table which is compiled by you?—This is a copy of the notes I gave you.

2625. But it is your work?—Yes.

2626. Does that illustrate what you have just been describing to the Tribunal?—Yes, it does.

2627. (*Mr. Goff*): Then may that now be put in and marked SWH 11, Sir? (*Table put in and marked Exhibit SWH 11*) (*To the Witness*): You took a hypothetical figure for this?—Yes, the figures are quite hypothetical.

2628. But it applies the principle?—Yes.

2629. The deficit is £10m., and the interest on it is £0.3m.?—Yes.

2630. And that is the point at which there is no change between the parties?—Yes.

2631. Then you proceed to work out the calculation in accordance with the PJ 16 method?—Yes.

2632. You deem a net revenue of £3.5m.?—Yes.

2633. You assume Central Charges, the interest item being £5.0m.?—Yes.

2634. And the expenses item being £0.50m.?—Yes.

2635. You deduct that, which gives you a deficit in the year of £2.0m.?—Yes.

2636. Then you take interest at 3 per cent. on half the deficit?—Yes.

2637. And that gives you £0.03m. with an aggregate of £0.33m.?—Yes.

2638. That is the way in which the PJ 16 calculation operates?—Yes.

2639. Then you say what you have just been telling the Tribunal; you say: "This way of taking a mean deficit would be valid if all items of income and outgoings came in and out in a more or less even daily flow. The method is not valid where interest is payable half a year in arrear, as in this case. The correct method is as follows"—and then you set out the way in which you work your calculation?—Yes.

2640. Would you just yourself explain it to the Tribunal, so that I do not put anything into your mouth?—Yes. Again there is the starting point which is common to both, namely the interest on the accumulated deficit, £0.3m.; there is no point on that, and that is only shown to complete the picture. But to find a mean deficit on which to apply the rate of interest following what I say is the proper formula, is to do it this way: You take the net revenue which is common, less expenses, and that is £3.5m. But one must here bring in a share of the central expenses, because these are subject to the daily flow; they are not in arrear. So one abates the net revenue by a share of central expenses, and gets a figure of £3.0m. Instead of bringing in a full year's interest, the right method is to bring in only half a year's interest; that is to say, other than the interest due at the close of the year, or in fact the day after. So one brings in half a year's interest at that point, and the true figure is £2.5m. at that point. Now one takes half for the purposes of getting the mean of that net difference; there should be another figure shown here of £0.5m. underneath the £3.0m. That gives £0.5m. and the mean of that is £0.25m., which is a credit because the amount in the analogy I gave is in credit all the year except for one day. That earns interest at 3 per cent., which is the small amount shown in the last column. Therefore, on comparison, one gets on the first one, the James/Evershed method, a charge

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of £0.33m., and one gets in the formula method a charge of £0.293m.

2641. So in both methods you take the interest as half—the mean of the deficit or surplus?—Yes.

2642. On the other method you ascertain the deficit or surplus on the full year's interest and bring in half?—Yes.

2643. I think there is a typing error on this document; if you look at "Deficit in year", it says "Cr.", but that must be "Dr." must it not?—Mine says "Dr." and that is correct.

2644. (President): The deficit in the year ought to be carried into the middle of that column of figures, ought it not, Mr. Hill?—It would be better, yes, Sir.

2645. It is "Deficit in year" underlined; underneath that is "Net revenue", and that is shown as a credit. That is right, is it not?—That is quite right. "Deficit in year" is, I think, a heading for the whole of that exercise.

(Mr. Goff): Yes, but one starts "Deficit in year" and the net revenue is obviously a credit of £3.5m.—

2646. (President): It would have been better to cross out the underlined words really and to put "Net revenue, £3.5m." and deduct what in effect are expenses?—Yes, Sir, in their first mention; not in their second mention.

2647. (Mr. Goff): Which on that hypothesis leaves a deficit in the year of £2.0m.?—Yes.

2648. The figure I was querying is that I have against that ultimate £2.0m. the symbol "Cr." which obviously ought to be "Dr."—

(President): Yes, and we have "Dr."

2649. (Mr. Poole): Would it not make it clearer if you had called it "Deficit in the current year" as opposed to the previous year?—Yes, it would, Sir.

2650. (Mr. Goff) (To the Witness): And then I think there is a "Cr." where it should be "Dr." in the bottom half of the table as well; it is the net revenue credit of £3.5m., less central expenses; I think that "Cr." ought obviously to be "Dr."?—That is quite all right.

2651. I am sorry; I have been given a wrong copy. Exhibit SWH 11 is an example of hypothetical figures working out the example which you have explained to the Tribunal?—Yes.

2652. And you say that if it is not done in that way, that is a definite error?—I do.

2653. Then you did speak as to there being some other doubtful matter; did you say that that in any event is a small matter?—Yes, it is just the share of the central expenses. Looking to the later years—that is the figures on AE 6 and SWH 4—there is a difference between the figures used by Mr. Evershed on the one hand and the figures used by myself on the other, of £0.1m.—

2654. (President): In all, do you mean?—In all, in a year—per annum. He uses £0.65m. where I use £0.55m.

2655. (Mr. Goff): What is the difference as a matter of criticism between this item which makes it doubtful and the others which you say are definite errors?—First of all, there is, both in his exercise and in mine, some element of judgment here, and therefore I have used the word "doubtful" rather than "errors". What he does is to take two items of these so-called Central Charges, put them to London and then apply 10 per cent. to the estimated items. What I do in these later years is to take all the items and apply 9 per cent. to them. We are not dealing with precisely the same items; he has said: Take out the little compensation for staff and do not bring in the miscellaneous receipts. I would accept that—not that they make very much difference; they do not get him to this first place of decimals.

2656. Then what is it that does make a difference and that does get him to this first place of decimals in this item? What is it that makes a difference of £0.1m. between you?—This item has in turn to be divided into two parts.

2657. Let us take the first part first.—The first part is that whereas Mr. Evershed takes two items and attributes them wholly to London, applying a percentage to the main item—

2658. That percentage being in fact a percentage of 10?—Yes. Whereas he did that, my method was to take all the items and apply a percentage to them without anything specifically picked out for London.

2659. Was that the same or a different percentage?—We now come to the second part. If you look at the difference in percentages, it is that Mr. Evershed takes 10 per cent., whereas in these latter years I have taken only 9 per cent.

2660. So you say that the fact of taking certain items in full and applying a percentage to the balance, in itself makes a difference, apart from any difference arising from taking a different percentage?—It does; it is £0.04m.

2661. So it is quite small?—Yes.

2662. But the main difference is the balance of the £0.1m.; that arises from taking a different percentage?—Yes. That gives them £0.06m., and those two items, £0.04m. and £0.06m., make the £0.1m.

2663. Do you say that you accept the first matter of taking out certain items in whole or not?—No. I say that I accept one or two corrections, which he has made, namely to cut out the compensation and to exclude the miscellaneous receipts; but we are getting down so fine to splinters at that point that I cannot sub-divide it any longer.

2664. But in the main the difference which produces the £0.04m., which is taking certain items in whole and applying a percentage to the balance, in the main do you accept what he has done or not?—I do not accept it in principle. I do not think you can mix those two methods, but I would not sustain a long quarrel about it, because it is so trivial.

2665. But as to the other matter, the percentage, which produces the £0.06m., what do you say?—It is clear that whereas treating London as 10 per cent. of the British Transport Commission was about right in the early 1950's, London has become year by year a rather smaller proportion of the whole of the British Transport Commission undertaking. In 1957 it was down to nearly 9 per cent.; it is in fact slightly under 9 per cent. now, and therefore I think the time has come to think of it now in terms of 9 per cent. rather than in terms of 10 per cent., which was accepted some years back.

2666. I see, and you have in fact adopted 9 per cent. in your table SWH 4 at some stage?—Yes.

2667. Is that throughout that table?—Yes, but I had used the 10 per cent. in the earlier years.

2668. Did you use 10 per cent. throughout SWH 3?—Yes.

2669. So you used 10 per cent. down to 1957, and you used 9 per cent. in 1958 onwards?—Yes.

2670. And it is that 9 per cent. which makes the difference of £0.06m., part of the £0.1m.?—Yes, that is correct.

2671. If you take the 1951 figure in AE 6, it is £7.0m., is it not?—Yes, I think that is so.

2672. That is the total Central Charges in column 4 of AE 6 of the year 1961; it is the penultimate line?—Yes.

2673. If you take the corresponding figure in SWH 4—that is column 11, the penultimate line, for 1961—you get £6.31m.?—Yes.

2674. And that is a difference of £0.69m., is it not?—Yes.

2675. Have you analysed how that difference is made up?—Yes, just for that one year. It is rather a long process of calculation, so I have taken it at 1961, but I can say that for all practical purposes this pattern of this analysis will be true of 1960, 1961 and 1962. That must be the case, because we have already demonstrated that there is a more or less constant difference between these two figures in these two totals. The make-up—

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2676. Before you give us the make-up, when you say it has been demonstrated that there is a more or less constant difference between the two figures, that was the difference which we considered earlier for the years 1960, 1961 and 1962, about which you gave evidence this morning?—Yes.

2677. Now you were going to tell the Tribunal what your analysis was of the difference between AE 6 and SWH 4 for 1961?—Yes; there are five items. The first is the treatment of the surplus funds other than the trust funds, namely the £2.2m. of which we spoke, and my treatment of the item as compared with Mr. Evershed's. The explanation of that is in terms of the 1961 calculation, a difference of £0.13m.; in effect that is 6 per cent. on the £2.2m. The second item is in this method of treatment of the trust fund moneys and the transferred lines.

2678. Those are the two elements, the £38.8m. and the transferred lines?—Yes. I take these together and they account for a difference of £0.33m. If it were desired to break that down again to the two elements of trust funds and transferred lines, I think it would be—yes, it would be—to divide that £0.33m. into the proportion of the amounts involved in those two, that is to say, the £38.8m. trust funds and the £12.2m. transferred lines. I have put those two together because it is rather a long calculation; that is £0.33m. Item No. 3 is the difference between us on this share of the central expenses. That is the difference of £0.1m. about which I was speaking a few minutes ago. Item No. 4 arises from this statement of interest in arrear and, as I say, the correct formula is to treat interest as payable in arrear. That accounts for £0.1m.

2679. That is the point which is illustrated in the new exhibit, SWH 11?—Yes. The fifth point is the cumulative effect of all the four preceding points. It will be appreciated that by having different figures in the early years they in their turn affect figures of accumulated deficit and that in its turn gives rise to small interest differences in the further years. It is not possible to break that up any more; it is just the cumulative effect of the preceding items, and that is only £0.03m.

2680. And that gives you the total of £0.69m.?—Yes; that is the make-up of the differences.

2681. (President): It is what accountants politely call a reconciliation?—Yes, Sir.

2682. (Mr. Goff): Would you just look again at the notes to Exhibit SWH 5; look again at the note to column 3, where you have dealt with that £41m. It is how you get the £38.8m. up to £41.0m., which we have fully discussed?—Yes.

2683. There is another note which follows immediately after that on another matter; what is that dealing with?—Apparently there were some further sums received by the Commission of which some part was referable to London and a little evidence has been given about it. I think it is noted here; it was Sir Reginald Wilson's evidence. He only gave a total figure, not a London figure; there is nothing in the Accounts which shows that. It was not brought into the closing account of the London Passenger Transport Board; the figure was not known, and therefore I have discarded that figure entirely.

2684. It is discarded also in the Commission's statements AE 5 and AE 6?—Yes. It rather looks as if there is another £2.0m. which in its turn would account for another £0.1m.

2685. Would that have brought any improvement in London's position, would it have made it worse, or is there not enough information to answer that question?—If it were brought out it would knock off another £0.1m. of Central Charges, but I cannot prove the £2.0m.; it is the total sum which Sir Reginald Wilson gave.

2686. (President): But it would delay the exhaustion of those sums by that amount, would it not?—That is so, Sir.

2687. (Mr. Goff): How far, if at all, would you expect the results of the calculation made in SWH 2 to correspond with the results of the calculation made in SWH 4?—Of course, if they are both down to a sufficient point

of accuracy—and that assumes that the data was available—they should produce very similar results. That could be demonstrated algebraically, because in fact one is dealing with the same basic elements. It looks to be an entirely different approach, but one is dealing with the same basic elements.

2688. That is what I wanted to get at. In fact, they do not produce identical results?—No.

2689. Why is that?—There are two reasons. One is that there is a difference between the degree of accuracy. For instance, there are certain items that are not reflected in this specific approach, and this £2.0m. of which I have spoken may well be one; I do not know, but one cannot break down every one of the small items, not having regard to the way in which the accounts are presented. It would have been possible to preserve them, but there was no need for it to be done; that is the point I make. The second point is this, that a difference does emerge between the two methods when there is a significant change in interest rates.

2690. And has that occurred at all?—That has occurred to a very marked extent. We have moved from the 3 per cent. to the 6 per cent. in a comparatively short time; we stayed at 3 per cent. for a very few years, and then we rose to 4 per cent., 5 per cent. and 6 per cent. in a few years, and that does reflect itself in the two approaches, because the apportionment is dividing a total sum of interest which is interest on all the capital obligations of the Stock and any loans which may still be outstanding, and therefore in effect dealing with an average rate of interest; whereas in the specific approach they make the calculations in any one year. The rate of interest has to be chosen, as it has been first by Mr. Evershed and then by myself, at the current rate of interest and if that current rate is getting a distance away from the average rate, that explains the major difference in the two results. Over a fairly long cycle of years the two methods, if done to the required point of accuracy, would produce results very close indeed.

2691. And the production of SWH 1 and SWH 2 is carried on into SWH 8; is the calculation in SWH 8 using the average rate or the current rate of interest?—The current rate, 6 per cent.

(President): Would it be inconvenient if I were to interrupt a question here, Mr. Goff?

(Mr. Goff): Not at all, Sir.

2692. (President): I may be misunderstanding the position, Mr. Hill, but is not another reason for the difference in the results as between your specific approach and your global approach in Tables SWH 1 and SWH 2 this, that the London Electric Finance Corporation loan as charged against the London Passenger Transport Board was $2\frac{1}{2}$ per cent., and when that was discharged new money had to be provided at 4 per cent.?—Yes, Sir.

2693. And that additional interest on the global approach was, of course, spread throughout the whole undertaking of the Commission?—Yes.

2694. In the specific approach it has to be borne by this notional body—the whole of it?—Yes.

2695. And that would account for at any rate part of the difference between the result of the specific approach and the result of the global approach?—That is quite true, Sir, but it is counteracted by the fact that while that happened and had the effect which you describe, capital was at that time or thereabouts being raised by the Commission for railways and other things at a higher rate of interest than the original 3 per cent., whereas the capital expansion of London was almost negligible, and London in the global approach shared in it. They are both factors pulling in opposite directions; they are both facets of the change in interest rates theory that I have just put forward; but it is true, as you said, that that accounts for some part of it.

2696. One cannot really say as regards any new issue whether it was raised by the Commission to pay for a particular obligation or not; but the London Electric loan was paid for in 1954 or 1955, and there was at or about that time a new issue of Transport Stock for a much larger amount?—Yes.

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2697. Issued at a discount and at 4 per cent?—Yes, giving a little more than 4 per cent. of discount.

(*Mr. Goff*): Having gone thus far in your evidence and considering all the matters we have been considering, which of the two results would you say is the more accurate, the result carried out finally in SWH 8, or the result in SWH 4?—I think SWH 8 is the more accurate.

2698. That is allowing for all the factors which pull in any direction?—Yes. This would be common to both, namely the adoption of this 6 per cent. makes any method in a former year have a certain amount of guessing about it. But this 6 per cent. is in all conscience a very high rate, and unless the rates goes even higher, the first method would give a sufficient contribution; but I think the method in SWH 8 is the more correct, if I may put it that way.

2699. I think you have, for convenience, set out the comparisons in the SWH 8 table, have you not?—Yes, at the foot.

2700. You have got, in line 15, the result of the SWH 8 calculations, and then, in line 17, you have got the comparison with your SWH 4, the specific method?—Yes.

2701. So there is a difference of £0.3m., in fact, in each of the years 1960, 1961 and 1962?—There is indeed, yes.

2702. You also set out the comparison with AE 5, and there, of course, the discrepancies are much greater?—They are, yes.

2703. Is that difference of £0.3m. between SWH 8 and SWH 4, having regard to everything we have been discussing, the sort of result you would expect, or does it surprise you?—At a time of moving interest rates in the way in which we have described, it is a perfectly explainable difference. If interest rates tend to go down again, say, to an average of 4½ per cent., the results of the two tests should get closer again.

2704. I now want to turn to another matter, and that is the question of London Lines and season tickets. Have you Table BH 28?—Yes.

2705. If you look at Item No. 3 in the third and fourth columns under the heading "B", they show, do they not, the estimated gross and discounted yields from the proposed increases in season ticket rates on British Railways' London Lines?—Yes.

2706. And they show £770,000 gross and £280,000 net?—Yes.

2707. What loss of custom does that represent of the season-ticket traffic?—A 3 per cent. loss, or in round figures 3 per cent. I have shown it here as 3.11 per cent. I would accept the way in which Mr. Harbour says you should express it by dividing A and B into two separate things, and I think he called it 3.03 per cent.

2708. You would accept 3.03?—Yes. I did not know whether to do it in that way or in this way.

(*Mr. Fay*): The calculation is 3 per cent.

(*The Witness*): It does not quite work out at 3 per cent., it is a round figure.

2709. (*Mr. Goff*): It is not less than 3, and it may be a fraction over?—Yes.

2710. Have you any comment to make on that?—Well, this is the extreme case where an increase in fares is proposed and where you have a situation where the loss of traffic is so much in relation to the yield to be obtained. It is the most extreme example in the long history of these Applications of where a proposal has been put forward affecting this class of ticket, or as far as I can trace any other class of ticket on either London Lines or the L.T.E.

2711. What do you say as to the proposition, as a proposition, to raise £280,000 net by a £770,000 gross increase representing a loss of 3 per cent. of the custom?—I think it is most inadvisable from the point of view of the public, and from the point of view also of the finances of London Lines. It is throwing away a significant part of the custom for a return which is relatively trivial.

2712. What do you think should be the attitude of a commercial enterprise to a proposition of that nature?—Not to attempt to introduce it.

You have in fact, have you not, an SWH 9 table, and that summarises this season-ticket application and previous ones beginning in 1952, does it not?—Yes.

2713. The first column gives the date, the second column gives the receipts before increase, the third gives the gross yield, the fourth the net yield, and the fifth the discount, that is simply the difference?—That is a difference, yes.

2714. Then you get the percentage discount in column 6?—Yes.

2715. How is that calculated; what does that show?—That is the percentage as represented by the relationship of the discount, column 5, to the total of the amounts in column 2 and 3.

2716. That is, as I put to Mr. Harbour, doing the sum backwards?—It is doing the discount calculation backwards, that is right, yes.

2717. Then in column 7 you get some other percentages. What do they show?—The purpose of the table, really, is to lead one to column 7. They show the ratio which the calculated net yield bears to the gross yield. They show, for instance, that in the 1952 Application of the increase in fares the Commission hoped to actually cash in on 91 per cent. of it. They show in relation to this proposal that of the increase in fares the Commission expect to cash in on only 36 per cent. of it.

2718. It appears from these figures that the 1953 ratio was even higher than 1952?—Yes, it was, but it was a small change, and I would not put anything on small changes in percentages.

2719. Then you get back to the same figure in 1952. Then would you say from 91 down to 87 was a small change?—91 to 87, yes, that is of a kind.

2720. Then you get a drop from 87 to 76?—Yes, it is coming down badly now.

2721. Then you get a drop from 76 to 60, which is another change of the same order?—Yes.

2722. Then the next one was better again?—Yes.

2723. Then you get another drop from 67 to 56, and then it drops again, and that is the largest individual drop as well as being the lowest figure, is it not?—Yes.

2724. What do you say as to that? Is that a wise method of finance, or not?—Quite frankly, I think it is a deplorable method of finance. I have never seen anything like this in any other connection, not even with bus companies, who have to discount all their yields from various changes in fares. I have never in 30 or 40 or more cases ever seen proposal put forward where to get 4d. custom is to be lost to the value of 8d.

2725. Have you any comment to make in this regard related to the purpose for which the money is required on British Railways?—Well, if it is required at all it is only wanted, on Mr. Winchester's evidence, for the purpose of reducing slightly the overall deficit of British Railways.

2726. That being the purpose, would you say that makes the operation more or less judicious than it otherwise would be?—Putting aside the question of whether it is right or wrong, I certainly think it makes it injudicious. There is another aspect of this, too, which I do not know if the Commission have given any thought to. This is season-ticket travel. It is assumed by the Commission's officers that 3 per cent. of the whole season-ticket traffic on London Lines will be lost as a result of these further increases. They say they lost 3 per cent. in the spring of last year because of that increase, that they will lose 2 per cent. because of the January increase, which is over 5 per cent., and now they say they will lose another 3 per cent. Now, let us accept that the season ticket users are to be lost, as the Commission themselves accept. How are they to be lost? There is no question, or there can very, very rarely be a question, of short travel on the London Lines. They are either lost by uprooting their homes, which I imagine does not often happen, or they

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are mainly lost through finding other methods of getting to work, and that must mean nine times out of ten getting to London.

2727. What is the significance of that?—Well, they are lost to London Transport as well; they are lost when they get to the main-line termini as potential travellers on the Tube and potential travellers on the buses—at least, not "potentials", they are travellers who hitherto have used the Tube and bus, and if they devise a method of getting to their place of work in Town by scooter or by car, then, of course, they no longer give their custom to London Transport at the terminal. Now, I do not know, but it could well be that this quite paltry return of £280,000 could be eaten into further by reason of that. I would not like to estimate that.

2728. Have you considered the question which the learned President put yesterday when I was cross-examining Mr. Harbour about this? The President said no doubt Mr. Hill would tell us where this £280,000 net should come from if it did not come from this source?—Yes.

(Mr. Goff): At this juncture, Sir, I desire, arising out of your question, to put certain matters which I have not put fully to Mr. Winchester. I have mentioned this to my learned friend, and if the Tribunal thinks fit I will propose to complete Mr. Hill's evidence and then Mr. Winchester could be recalled if my learned friend desired that to be done.

(President): Certainly.

2729. (Mr. Goff): What has been your line of approach to this?—It has been this: First of all, even accepting entirely Mr. Winchester's evidence as to the position of London Lines, foregoing this little item of £0.28m., say a quarter of a million pounds, does not put London Lines in the position of not paying its way, it does put it in the position of not making an increased contribution to Central Charges, for which he is asking. All it means is that they are not going to make quite as much surplus as he envisages they will make, which surplus is in mitigation of the overall deficit on British Railways as a whole. In other words, their contribution of half a million pounds towards the accumulated deficit of British Railways will be reduced down to something fractionally less than a quarter of a million pounds.

2730. He envisaged a surplus of half a million pounds?—Yes, he envisaged half a million pounds after increasing the contribution towards Central Charges. I would say, therefore, that even accepting—

2731. Before you go further on that, would you take the Second Day's transcript at page 18. If you look at the first column, about the middle of the page, there is a question: "That is the Exhibit to which I referred this morning. Exhibit WW 11? (A) Yes."—Yes.

2732. Then he was asked: "What have you done on this occasion?", and he went on to describe that and there was question and answer down to just below the middle of the second column. Then the question was: "That gives you half a million pounds over and above available for reserve; that is so? (A) Yes."—Yes.

2733. That is the evidence Mr. Winchester was giving on this question of the expenses and receipts of London Lines to which you were referring when you spoke about "Even accepting his figures"?—Yes—a surplus which, in effect, is a subsidy to the rest of British Railways. I would, therefore, say that it is plainly stupid to lose 3 per cent. of your regular season-ticket passengers for the purpose of making a half million pounds subsidy to British Railways out of London rather than making a subsidy of a quarter of a million pounds.

2734. That is on his figures?—That is on his figures, yes.

2735. He did give evidence that the L.C.C. proposal for the half-mile fare scale would cause a loss of a further £200,000?—Mr. Harbour did, yes.

2736. What do you say about that item?—That the figures could well stand that as well.

2737. You said even taking his figures. Is it a fair summary of his evidence to say he started with expenses

for 1959 of £29m., which he took from Exhibit WW 11 in the previous Scheme?—That is so.

2738. (Mr. Goff): That, Sir, is to be found at page 21 of the previous transcript. (*To the Witness*): Then he worked a calculation, which I will discuss with you presently, in respect of wage rates and price level increases?—Yes.

2739. Which increased his expenses by £2.5m. to make £31.5m.?—Yes, that is so.

2740. Then he took the receipts anticipated as referred to on BH 28, which were £32.89m., and then he added to that the net yield from the proposals, which brought the £32.8m. up to £34.5m.?—Yes.

2741. So that produced a surplus of £3m.?—Yes. Mr. Goff, I am just a little confused by the £32.8m.

2742. That was a figure taken from BH 28. You might look at that and then you will know exactly where you are. That was the figure taken up to Item 6 as the year's receipts at charges applying before the 15th January, 1961, £32.895m.?—Yes, after Stage 1 but before Stages 2 and 3.

2743. That is right. Then he added the net yield which he took from column 4, item 6, £1.53m., which you see is the total increase from Stages A and B. It appears right at the foot of the page?—Yes.

2744. Then he takes the £32.895m. (which was the figure after Stage 1 but before Stages 2 and 3), and he then adds the net yield from Stages 2 and 3, £1.53m., which together come to £34.5m.?—No, £34.4m.; it is £34.4m. to the nearest place, but he referred to it as £34.5.

(Mr. Fay): Mr. Winchester said he preferred the fraction to the decimal, because it indicated that he is not working to tenths, but to halves.

2745. (Mr. Goff): Very well, £34.4m. (*To the Witness*): The upshot of that exercise was to produce an initial surplus of £3m., because it is £34.4m. contrasted with £29m. increased to £31m.?—That is correct.

2746. Then he worked a calculation in respect of Central Charges which gave him £2.4m.?—Yes.

2747. I will discuss that with you. Therefore he produced his surplus of half a million pounds?—Yes.

2748. So far you have said what you regard the position to be accepting Mr. Winchester's figures?—That is accepting his figures as to what London Lines are costing and what their Central Charges' contribution should be, namely, a surplus of half a million pounds.

2749. Have you some criticisms to make of his figures?—Yes.

2750. What is the first of those?—The first is this, that the whole of his presentation as to the cost of London Lines and as to the share of the increased wages attributable to London Lines, and as to the share of the Central Charges attributable to London Lines, the whole of that calculation in each of those three elements, depends on acceptance of his costing exercise for London Lines partly undertaken in 1954 and partly undertaken in 1958/59. You see, he starts with the figure of £29m., which is the costing exercise figure.

2751. That is taken from WW 11?—Yes; and as was shown at the 1959 hearing, he did not really do an up-to-date costing in 1959, he did a partially up-to-date costing but used some of the elements in a way which I thought was rather arbitrary from his earlier exercise in 1954. The point I want to make there is that the first element in this presentation of the London Lines' budget, if you like, depends entirely on the costing exercise acceptance of the £29m.

2752. Is that used in working out his calculation in respect of wage rates and price level increases?—It is.

2753. And it is used, is it, in working out his calculation of Central Charges?—It is used again and again.

2754. So it is not only the basis figure, but it is a calculated figure?—It is a calculated figure. Dealing with the first, namely, the increased costs, largely wage increases

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and other costs of British Railways since 1959, he says that the total increase is a figure of £43m., and he expresses that as an increase of 8½ per cent. on the total cost of British Railways; but, in effect, what he does in his calculation is to take a fraction of the £43m., a fraction of which the numerator is his figure of £29m. and the denominator is a figure of £499m.—

2755. That was a figure he had given, in the evidence to which we referred, as being the expenses of British Railways in total?—Precisely. So he applies that fraction to the £43m., in effect—and I say "in effect" because I know he put it the other way round, but that did not really matter—and he arrives at the conclusion that the share of these increased wages, and so on, attributable to London Lines is £23m. It is significant that, as has been done in so many of these Inquiries, he applied the 5 per cent. which has been adopted as the London Lines' ratio, his answer would have been £2.1m.

2756. I just want to clear up one or two matters there. You said that he did something in effect though he put it the other way round. What he was saying was this, that he took the £29m., the expenses for 1959, over the £499m., which was the total expenses, and he took that fraction of £43m.?—Yes.

2757. Being the wage rates and price level increases from British Railways?—Yes.

2758. That, in fact, is equal to 8½ per cent. of £29m.?—Precisely, yes.

2759. And he expressed it as 8½ per cent. of £29m.?—Yes.

2760. It is, in fact, £29m. over £499m. of £43m.?—Yes.

2761. And you are saying if you apply the 5 per cent. fraction you take 5 per cent. of which figure?—£29m. or £43m.?—£43m., a 5 per cent. share of the increased wages, etc.

2762. That gives you what figure?—That would give a figure of £2.15m., which you can take as £2.1m. or £2.2m., whichever you like.

2763. You said the 5 per cent. figure had been adopted at so many of these Inquiries. Can you just elaborate that a little?—I have some of the references. Perhaps I may go back, first of all, to the Tribunal's Memorandum on the 1953 Application, when the Tribunal assessed a figure and it was at the next Inquiry in 1954 that this was used to support the ratio of 5 per cent., it being pointed out by Counsel promoting the 1954 Application that the figure found by the Tribunal in 1953 was almost precisely 5 per cent., as it happened, of the total costs of British Railways, and that seemed to be one of the reason, at least, why in 1954 the Commission said: "Take London Lines as 5 per cent. of British Railways". Again in 1955 this 5 per cent. was used for the purpose of evaluating the London Lines' share of increased costs of British Railways.

2764. Have you the reference in 1955?—I have the 1955 one here, yes; that is page 3 of the Minutes of the 1955 Inquiry, and a further reference at page 10 of those Minutes at Q 81.

2765. After 1955 how do we go on?—At the 1956 Inquiry the 5 per cent. was again adopted by the Commission.

2766. Have you the reference?—The 1956 Minutes, page 10, the latter part of Q 428. If I remember rightly, that is a question that came over from the page before; it is at the top of the page.

2767. That is a magnificent piece of memory!—It was only last night that I looked it up again when I was checking some of these references.

2768. Then after 1956?—In 1957 the 5 per cent. was again adopted by the Commission, by the promoters of the Application, to arrive at the London Lines' share of the increased costs of British Railways.

2769. What is the reference there?—Page 38, Q 457.

2770. After that?—5 per cent. was again used in the 1958/59 Inquiry, not for the purpose of arriving at the share of increased expenses, because at that stage Mr. Winchester introduced a partial costing exercise, but in this case for the purpose of getting at the London Lines' share of British Railways' Central Charges, or the London Lines' share of the British Railways' share of Central Charges.

2771. What is the reference there?—Page 61, Q. 337.

2772. So that in all those instances from 1953 to 1958/59 it was always 5 per cent.?—5 per cent., yes.

2773. And now the calculation works out at 8½ per cent?—No, that is another point. It is 5.85 per cent., to be exact. 8½ per cent. is the increase in costs from the base figure, which new percentage, of course, is derived from the costing exercise, the £29m.

2774. In his evidence Mr. Winchester also worked out the share of Central Charges and that came to £2.1m., did it not?—That is so, yes.

2775. How was that calculated by him?—Again using his £29m. as the numerator and £495m., namely the total costs of British Railways, as the denominator.

2776. What percentage did you say that fraction is?—5.85 per cent. it works out at.

2777. What do you say should be done there?—I say that as I, for my part, do not accept the costing exercise, nothing better can be done than adhere to the 5 per cent.

2778. What result would that produce?—That would have produced at that point £2.1m. and not £2.5m.

2779. So that would reduce the figure in two places, would it, from £2.5m. to £2.1m.?—Yes. In the first case you can take your choice between £2.1m. or £2.2m., because it is just half-way.

2780. Let us take it at £2.2m., to be quite fair. So that would be a saving of £0.3m.?—Yes.

2781. And in the other case of saving of £0.4m.?—Yes.

2782. So that would be a saving of £0.7m.?—Yes. So if one were employing the 5 per cent. for the increments, or even if one were starting at the £29m. for want of a base, the result would have been not a surplus or subsidy to British Railways of half a million pounds, but one of £1m. But I think this can really all be summarised very shortly in this way, that on Mr. Winchester's own showing the increased cost by reason of wages since 1959, only amounts to £23m.—I would say £2.2m., but he says £2.1m.—and yet the effective increase in season-ticket rates in the three stages of these applications—that is, April last year, January this year, and the further one in contemplation—is to increase the fares after the discount by £3.4m.

2783. That is Stages 1, 2 and 3?—That is Stages 1, 2 and 3.

2784. What is the figure taking Stages 1 and 2 only?—£2.81m. £2.8m., in round figures, is the value after discount of Stages 1 and 2 as affecting London Lines.

2785. I stopped you when you had drawn attention to the £2.5m. or £2.2m. figure which you say should be £2.2m., and you had drawn attention to the £3.4m. for the total increases. What observation were you going to make about that?—It is this, that taking these three stages together and comparing the position with 1959, what Mr. Winchester is saying is: "My costs have gone up by £2.4m. since 1959, and I am putting my fares up by £3.4m." In other words, the whole object, the combined accumulative effect of these three increases, is to improve the position of London Lines compared with what it was at the close of the 1959 Inquiry by nearly £1m., enough to cover costs and another £1m. in excess; and if one went further and accepted my view that one should use the 5 per cent. and disregard the costing exercise because of criticism that could be made, it would be another £0.3m. as well.

2786. Going back to the £770,000 gross yield and the £280,000 net yield from season ticket increases which you

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have criticised, in the light of what you have just been saying would you say that that should be adopted, abandoned, or made up somewhere else?—I think there is not the slightest question it should just be abandoned. There is no need for the revenue, no need at all.

2787. You said it should be abandoned, and then I think you gave a reason?—Yes, there is just no need for the revenue. It is an undesirable thing in itself. In certain circles, however undesirable, it might have been necessary if the revenue were absolutely required, but it is just not required; it is only to contribute to an improvement beyond the position as it was left at the 1959 Inquiry, and a very substantial improvement.

2788. I just want to correct something which I think I put to you slightly inaccurately. I said Mr. Harbour gave evidence that the effect of the L.C.C. proposal would mean a further loss of £200,000. I think what he did say was a further loss of £100,000 in respect of season tickets on London Lines and £100,000 on day returns?—That is quite true, the two items together.

2789. I want you now to direct your mind to the question of the London Transport Executive reserves. Have you any view on that subject as to the desirability of aiming at a reserve, and if so about its size?—Yes. I have no new views, they are only the views that I have expressed before, and, briefly, they can be put in this way: (1) That, of course, reserves are always desirable things if you can get them painlessly or without causing too much pain. I think we all like to have reserves, and certainly it would be a very good thing if London Transport had sizeable reserves. There is no question about that. (2) If, however, you can only get those reserves by losing your best reserve of all, namely your custom, quite obviously there is a point where it is undesirable to sacrifice your custom for the purpose of just having more money in the bank, and it is a matter of judgment where that point arises.

2790. You have considered the evidence which has been given by the British Transport Commission and you have considered your own evidence. What, in your opinion as a financial adviser, would be the right figure to aim at as regards London Transport Executive having regard to the actual facts with which we have to deal?—Well, I cannot think that because of the sacrifice of custom it was desirable to aim at anything above £1½. I realise this is not a mathematical calculation, it is a matter of judgment.

2791. But as a financial adviser, that is your opinion?—Yes.

2792. That is an opinion given, is it, having regard to all the facts and circumstances of this case?—Yes, and it is an opinion of a type which I have on occasion given to municipal undertakings, not so big as this, of course, namely that whereas a reserve is obviously desirable, to put more money aside now merely for the purpose of easing the future is a very inadvisable thing to do if the cost of it is losing the custom that you want in the future. My advice to municipal undertakings has always been to aim at only reasonable reserves. Indeed, quite apart from that advice, it is now abundantly clear that the Licensing Authorities on bus fares are just not prepared to let municipal undertakings build up reserves of any moment at the expense of increasing fares, unless that increase in fares is just straightening out anomalies. They just will not give them that margin to play with.

2793. When you say they will not let them build up reserves, does that mean beyond some figure, or they will not let them have any reserves at all?—They vary. Of course, they do not prohibit reserves, they cannot interfere with that; but if it is put to them that this particular fares Application is as to 70 per cent. for meeting increased wages and charges and as to 30 per cent. for building up a reserve, then it is very unusual to find that the Licensing Authority will allow much more than the 70 per cent. They will not allow a substantial increase in fares for that purpose.

2794. If you look again at BH 28, the totals in columns 15 and 16, they are the gross and discounted yields for the London Transport Executive for all the increases, are they not?—They are indeed.

2795. You get the totals under Stage 3 at the foot of the page, which gives you £3,332,000 gross and £2,070,000 discounted?—Yes.

2796. What loss of custom does that represent? Have you worked it out?—Just at Stage B?

2797. Yes.—That represents nearly 1½ per cent. loss of custom on the whole London Transport Undertaking just at that point.

2798. Have you any comment to make on that, or do you merely desire to point out that that is so?—I have this comment, that it is very much better to moderate the figure for reserve and lose less custom, especially as the whole object of these reserves is to relieve the future. There is no other purpose in it. It is to relieve the burdens of the future, and that is the only purpose in it. If by losing custom you are contracting the base on which the increased costs of the future are to be spread, it could well be that the impact of those increased costs could be at least as great because you have got reserves as it would be if you had not, because you are contracting the base on which further increased costs are to be spread.

2799. So you do not get the contemplated advantage and you do get the present suffering?—Yes. In a nutshell, your best reserve is your custom; that is your best reserve of all.

2800. Apart from administrative difficulties, as a matter of figures and accountancy you heard the effect of the L.C.C.'s proposals, did you not?—Yes.

2801. Would you say that the reduction in the proposed yield which would be inherent in those is something which could be contemplated, or something which is out of the question?—Oh, there is room here to accommodate it.

2802. Would you say, having got that far, that it was reasonable, or desirable, or rather straining things to do it?—Oh, no, there is plenty of room, in my opinion.

(President): Mr. Fay, are you going to cross-examine straightforward?

(Mr. Fay): Except upon the new matter, which Mr. Winchester will have to consider.

(President): Very well; and then when he has considered it you can say whether you want him recalled.

(Mr. Fay): I do not suppose I shall finish with Mr. Hill this afternoon, and I hope to be ready to go on to-morrow.

(Adjourned for a short time)

(President): Have you got another witness after Mr. Hill, Mr. Goff?—No, Sir.

(President): Has anybody else in this room any evidence they would like to call, or would they like to give evidence? (No reply).

(Mr. MacLaren): I am not calling any evidence, Sir.

(Mr. Fay): My learned friend Mr. Noakes told me this morning he was calling no evidence.

(President): There is just one other point which occurred to me. We are going to adjourn at the conclusion of the evidence until Thursday week in order that we may then hear speeches. I am told there are two or three Objectors who want to address us shortly, and I wondered whether the leading orators would mind very much if they made their short addresses first.

(Mr. Fay): I think that would be an admirable course, Sir.

(Mr. Goff): I would agree to that.

(President): I do not think they will take more than a quarter of an hour each and they may like to be told that they can be here at half past ten and then go away to their ordinary vocations. So I gather we shall not be regarded as being unmindful of the privileges of the Bar if they are told that they will be heard at half past ten on the day on which we resume.

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Cross-examined by MR. FAY

2803. The questions I am going to ask you this afternoon are about London Transport only; you follow that? —Yes.

2804. London Lines you have rather sprung on us. I do not know whether it is a result of last night's midnight oil, but it is something new, is it not? —Yes.

2805. So this is just London Transport. Let me see if I understand the London County Council's case on London Transport. If I have understood what has been put to the Commission's witnesses, it is suggested, firstly, that we have pitched our requirements too high; that is right, is it not? —That is right.

2806. Secondly, it is suggested that the increases at stage 3 should be modified with the effect of reducing the yield by £0.9m.—I think it is £0.9m., yes.

2807. Taking it to the nearest £100,000; it is £870,000 odd. That is the case with which I have to deal, is it not? —Yes.

2808. Would you look with me at Mr. Evershed's Exhibit AE 3—Mr. Fay, I was not quite clear if it was £0.9m. and I am just trying to reconcile that with the tables.

2809. You cannot reconcile it with any tables the London County Council have put in. It was put by my learned friend, Mr. Goff, I think in cross-examination of Mr. Harbour, that the total reduction suggested on London Transport amounted in total to £873,101? —Yes. I do not know how that was arrived at. I am working from the tables LCC 1 and LCC 2 and comparing the two discounted yields.

2810. I do not think you have caught up with the proceedings entirely, because LCC 1 and LCC 2 do not deal with the whole of the field, they do not cover coaches and they do not cover seasons.—That is it.

(President): Or day returns.

(Mr. Fay): Indeed, Sir.

(President): If Mr. Hill's figures are limited to the ordinary rail and road, the LCC figures come to £763,548, I think.

(Mr. Fay): That is LCC 1 and LCC 2.

(President): That is so, yes.

2811. (Mr. Fay): That is what the County Council's proposal is? —Yes.

2812. I think it is accepted that it is a reduction of £0.9m. Could we see where that takes us. Would you look with me at AE 3: column three of that document shows the Commission's forecast for the future year, as you recall? —Yes.

2813. Showing at the end, line 11, a surplus of £2.1m. Are you with me so far? —Yes.

2814. That end figure is proposed by the London County Council, as I understand it, to be reduced by £0.9m.? —No, because neither the London County Council nor myself accept the figure in line 8.

2815. I fully appreciate that. May I put it in this way: if the London County Council's proposals are accepted, the figure at line 11, never mind what it is described as, will fall to be reduced by £0.9m.? —No.

2816. Will it not? —No.

2817. I said no matter what it is described as.—No, it does not matter what it is described as, I agree.

2819. May I try again. Would you lump together line 11, £2.1m., and line 8, Central Charges? —Yes.

2820. Do they together come to £9.1m.? —Yes.

2821. Is it the London County Council's proposal that that £9.1m.,—which would be the net revenue of London Transport? —That is right.

2822. —should be reduced by £0.9m.? — That I would agree.

2823. So that brings the net revenue down to £8.2m.? —Yes.

2824. And that is the proposal with which I am dealing? —Yes.

2825. For the future year, as shown in table AE 3? —Yes.

2826. I think we have always been at one on this, Mr. Hill, because I fully appreciate that you do not approve of our approach to Central Charges? —That is right.

2827. That is the proposal. Now let me look at those figures of net revenue, which we say should be £9.1m., and you say should be £8.2m., in the future year so described. Do you accept that in the 1959 Decision—that is the Decision last time—the Tribunal envisaged a net revenue for 1960 of £8.9m.? —I cannot accept it at the moment; you may be able to demonstrate why I should, but at the moment I do not.

2828. You would rather we went through it, would you? Would you turn to the last day of the last hearing and look at Page 497. Do you recollect the Commission's memorandum which is printed on that day? —I recollect it, yes, but I do not know the detail of it.

2829. You remember it was furnished in response to the Tribunal's Interim Decision? —Yes.

2830. If you look at the top of the second column, do you see that the Commission were putting forward, in conjunction with their revised scales to meet the Tribunal's Interim Decision, proposals which involved additional revenue requirements for 1960 of £4m.? —Yes.

2831. That was additional to the available net receipts of £4.8m. in the preceding line, was it not? —Yes.

2832. So the Commission were saying that for 1960 they ought to have £8.8m.? —The Commission were so saying, yes.

2833. In fact they got £8.9m., did they not? —I will accept that from you.

2834. Just bear with me if you are not convinced and turn over the page. In the second column on Page 498 is summarised the result of the proposals which, as regards 1960, were accepted by the Tribunal. That is a fact, is it not? The revised proposals as regards 1960 were accepted? —I think that is so, yes.

2835. And embodied in the Order? —Yes.

2836. Do you see the table in column 2 on Page 498? —I do.

2837. That shows a revised annual yield of £4.1m.? —Yes.

2838. So if you accept it from me—and it will soon be contraverted if it is not the case—that the Tribunal accepted those proposals for 1960 and embodied them in their Order, they did so on the footing that there was going, in 1960, to be available net receipts of the £4.8m. then available—that is back on Page 498—plus the revised annual yield of the increases, £4.1m.? — That I do not accept.

2839. What do you not accept? —You are saying to me that because the Tribunal accepted certain proposals as affecting fares which were exemplified or quantified in your memorandum, I must therefore accept that the Tribunal had the intention—

2840. No, I did not say "the intention", I said "on the footing that". —No, I do not think so. I do not think it can be inferred that the Tribunal's Decision was on the footing of any of these particular figures.

2841. I see. Were any other figures put before the Tribunal as a forecast of what they were going to get? —Throughout the whole of the proceedings your basic figures

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which led to these figures were criticised. They were criticised by me. For instance, the figures of net receipts at existing charges at the top of the table were heavily criticised. I do not know what impact my criticisms had on the Tribunal, but they were heavily criticised as giving undue weight for downward trend. Exactly how the Tribunal resolved those figures—

2842. You said the revenue would be higher?—I said the revenue would be higher, yes.

2843. If I alter my question to say was it not envisaged that the net receipts would be at least £8.9m., perhaps you will agree with me?—I do not think I can, because practically every important figure was under question. I cannot attribute to the Tribunal any combination of figures that led to their Decision.

2844. Never mind attributing anything to the Tribunal. Will you go this far with me, that the Commission put forward the revised proposals as, in their view, likely to produce a net revenue of £8.9m. in 1960?—I would accept that.

2845. That was a firm forecast for 1960?—It was their forecast, yes.

2846. You say that forecast was not accepted by the London County Council.—Certainly.

2847. You thought, did you not, that it would produce a higher figure?—I thought, in terms of the receipts, it would produce a higher figure, yes.

2848. So it may be that something more than £8.9m. was envisaged so far as one could look forward in the light of the evidence given?—It may have been, yes.

2849. You are not going to agree with "at last £8.9m."?—I am not going to agree at all that you can take the decision, which was the approval of certain fares, and say that that was based, in the Tribunal's mind—

2850. I am not asking you to go to the Tribunal's mind, I am asking you what was envisaged at the time.—By whom?

2851. By any of us.—I think a whole lot of different things were envisaged by us. What have I agreed to is that as envisaged by the B.T.C. those are the figures.

2852. And they were criticised by the opponents as producing something higher and, therefore, being unnecessary.—That the proposals were too high, yes.

2853. So it looks, does it not, as though there was a consensus of opinion between the Commission and the Objectors that at least £8.9m. would be the net revenue to be aimed at for 1960?—I agree that we thought the effect of these proposals would be to produce at least £8.9m. revenue, but that does not mean that we agree the Tribunal thought that.

2856. No; I would not regard it as proper to speculate as to what was in the Tribunal's mind except insofar as expressed in their decision. What I am trying to see is what was envisaged by those who were present, and I think you have gone along with me as far as is necessary on 1960. Would you travel the same road with me as regards 1961?—Look at the top of page 497, available net receipts £4.4m. Do you see that?—Yes.

2857. Let us see what the Commission said they were going to get. Turn over the page to page 498, column 2. They asked for an increase from the yield of the scheme of £4.7m., did they not?—They estimated it would produce £4.7m., yes.

2858. And, in point of fact, the Tribunal did not give them the elements making up the £4.7m.—No.

2859. Because the increase in yield by putting up season tickets at the end of 1960 was denied?—Yes.

2860. So one can re-write the 1961 column in that table by inserting the figure of £0.3m. against season tickets, can one not?—Yes.

2861. That makes the revised annual yield, not £4.7m. but £4.4m.?—Yes.

2862. Add the £4.4m. which the Commission said, and so did this Tribunal, was the yield for 1961 at last time's increase to the available net receipts £4.4m., and you get £8.8m., do you not, and that is what was envisaged by the Commission as being the result of the proposals which were embodied in the last alteration.—Yes, I think that is right.

2863. Net revenue £8.9m. in 1960 and £8.8m. in 1961. Once again in 1961 as in 1960 the Objectors thought that the revenue would be higher than that and, therefore, the increases ought not to be allowed?—Yes.

2864. You know, do you not, that the actual net revenue for 1960 was £8m.?—No.

2865. "Actual" qualified by the word "estimated" —Yes.

2866. 1960 is over but firm figures have not yet appeared in print certified by any auditor; but that is what those who have the books in their charge have said is the figure.—Yes, I would accept that.

2867. Indeed, you have taken it into your tables, have you not?—Yes, indeed.

2868. Do you accept that if the whole of the present application is acceded to and stage 3 is put into effect later this year the net revenue is likely to be £8.1m. in 1961?—I do not at the moment. Let me work it out from something of my own. I do, yes, in 1961.

2869. In this present year 1961, if the proposals of the full Scheme, that is including stage 3, are in due course implemented, then the forecast is a net revenue of £8.1m?—The forecast is £8.1m., yes.

2870. And on the same hypothesis the forecast for 1962 is £8.9m.?—That is so, yes.

2871. You accept that?—Yes, I will accept them as forecasts.

2872. Forecasts which I have not heard you criticise.—No, that is true.

(President): You said Mr. Hill had carried them into his tables. Which tables were those?

(Mr. Fay): SWH 4 and SWH 7, Sir.

(President): £8.1m., and £8.9m., yes.

2873. (Mr. Fay): He has also got the £8m. for 1960, of course. (To the Witness): Those being the net revenue figures for 1960, 1961 and 1962 so far as they can be foreseen, would you bear with me to see where that leads us. It assumes, of course, that the Application is accepted by the Tribunal in full. Now, you have calculated the Central Charges attributable to London Transport by two different methods, have you not?—Yes.

2874. And you have produced two different results.—Yes.

2875. For 1960 your result by one method, SWH 8, is £5.6m., and by the other method, SWH 4, £5.9m.?—Yes.

2876. If your lower figure is right, then for 1960 the surplus above Central Charges would be £2.4m., would it not?—Yes.

2877. And if your higher figure is right, the surplus above Central Charges would be £2.1m.?—That is correct.

2878. May we do the same calculated for 1961: The net revenue is expected to be £8.1m. and your lower figure of Central Charges is £6m.—Yes.

2879. If that is right, it leaves a surplus of £2.1m.?—Yes.

2880. Your higher figure is £6.3m., is it not?—Yes.

2881. Producing a surplus of £1.8m.?—Yes.

2882. That is 1961, on the footing that this Application is granted.—Yes.

2883. On the hypothesis that your Central Charges are right—which, of course, I do not accept, but you and I are used to dealing in hypothesis—the surplus, what the

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Commission have called the reserve and the Tribunal have called the surplus in their Interim Decision, is somewhere between £1.8m. and £2.1m.?—Yes.

2884. You say, I take it, that is excessive?—Yes.

2885. If you do not say it is excessive you cannot attack this Application, can you?—Oh, yes; I can attack it, even if I did not say that, in respect of the difference on the Central Charges.

2886. I have hypothetically conceded your Central Charges to deprive you of that attack, have I not?—I must ask you to repeat that again, I am sorry.

2887. Just take this sum down: 1961, net revenue £8.1m., Central Charges either £6.0m. or £6.3m., balance, i.e. surplus, either £2.1m. or £1.8m. You say that the £2.1m. or the £1.8m. is too high a surplus, do you not?—In 1961, yes.

2888. If you did not say that you could not, for 1961, attack this Application, could you?—I think that is right.

2889. You thought you would agree. It means, the Tribunal having said in its decision last time that London Transport should have a surplus of £2.5m. in 1961, you are bound to say that £2.1m. or £1.8m. is too high. — Looking at the matter in 1959 the Tribunal said that. It is impossible for the Tribunal to say that looking at the matter today, because even under your Application you cannot get £2.5m., you can only get £1.5m. So I think it is perfectly right to say that it is impossible, in relation to 1961, in view of the change in the circumstances, for the Tribunal to make the statement that there should be a reserve of £2.5m. in this year. It is now impossible for that to be carried into effect in any event whether it is under your Application or as modified by the LCC.

2890. That is rather a different question, is it not, whether it can be carried into effect?—I do not think so.

2891. You do not?—One could still envisage a circumstance in which if instead of being in February we were in November and you may well put forward an Application to increase your revenue by £10m. but it would only produce £1m. in this current year, namely one month's income, and then you could still put to me: "Oh, but we are not getting our £10m.". So I think my observation is perfectly correct.

2892. You appreciate that in 1961 we are assuming that stage 3 is going to produce £0.9m. — Yes, I think that is right.

2893. Other things being equal, do you think that £2.5m. should have been aimed at for 1961 as the surplus? — That became impossible; the wage increases made it impossible.

2894. I said other things being equal.—I do not know what other things you mean. Do you mean if circumstances had changed?

2895. It is one thing to have a target and it is another thing to achieve it, but the fact you do not achieve it does not destroy the validity of the target?—No, but it makes it irrelevant in relation to any particular year. If it is now apparent that you cannot have a target of £Xm. for 1961, that is the beginning and end of it so far as 1961 is concerned.

2896. It is apparent, is it not, that we could have a target, if you are right on Central Charges, of something between £1.8m. and £2.1m.?—You could have a resultant.

2897. Why is it not now a target?—I thought it ceased to be a target because you could not hit it. Now you can hit it, can we not call it a target?—We have moved the target.

2898. I am trying to follow your mental processes. — I am trying to follow yours. What you are putting to me is this, that the Tribunal said there should be a surplus of £2.5m. in 1961 and you are now putting to me that it is not possible for the Commission to get the target of £2.5m.

2899. To reach the target, yes; that is what you were putting to me, I thought.—I am saying that is so.

2900. Where ought the target, in your view, to be set for 1961?—One should not set a target for 1961, one should set a target for the year of this Application, namely the full year from when it comes into effect.

2901. May we move to 1962, then. Is that sufficiently far ahead for us to have a target?—That is much more like it.

2902. Do you mind erecting a target for 1962?—Let us do our little sum again for 1962: net revenue, £8.9m. if this Application is granted, and your estimate of Central Charges for 1962 is either £6.5m. or £6.8m.?—Yes.

2903. So on the hypothesis that you are right on Central Charges, there is available in 1962 either £2.4m. or £2.1m. for surplus.—Yes.

2904. That is what could be done if the Application is granted and if you are right on Central Charges. Of course, if we are right the surplus is less, is it not?—If you are right the surplus is less.

2905. On the hypothesis that you are right, the surplus is somewhere between £2.1m. and £2.4m.—Yes.

2906. Against that background, what do you say the target should be for 1962?—At the most £1.5m.

2907. Why?—That is what I said in my evidence in chief.

2908. You see, the Tribunal said that the target for 1961 and 1961 should be £2.5m., but you do not mind?—The Tribunal will not think you are being impertinent if you say you honestly think they were wrong. Do you honestly think they were wrong? — Yes. I think the reserve of £2.5m. under the present circumstances of losing your traffic—

2909. You are off my question. I said do you think they were wrong?—In 1959? Oh, yes.

2910. So in the then circumstances £2.5m. was too much?—I think so.

2911. What would you have thought right in those circumstances?—At the very most £1.5m.

2912. And £1.5m. now?—At the very most, probably less. I said it was somewhere in that range. There is no secret of one's views about the £2.5m.

(President): I am afraid we were not as exact as a surplus of £2.5m. What we said was for these two years 1960 and 1961 the surplus ought to be at the rate of about £2.5m.

2913. (Mr. Fay): Yes, Sir. I apologise for omitting the word "about". I did not attach any precision to the precise point and, indeed, the Commission's memorandum showed that we were indulging considerable averaging. (To the Witness): Now may we go to the question of Central Charges. You have given a lot of evidence this morning, some of it in considerable detail, about the working out of Central Charges. May I try and see the wood first before we get among the trees. There is no doubt, is there, that there is an ascertainable sum of Central Charges payable by the British Transport Commission?—Subject only to the fact that it has become customary to put little bits in there which some people would not regard as Central Charges. But subject to that very little qualification, I would agree.

2914. (President): What you mean is some other Account might have drawn up the Accounts in a different form?—Yes, Sir.

2915. I think you may take it that we will take the Commission's two accountants as being sufficient for our purposes. You must not have a notional Transport Commission, some hard facts we must have.—Yes. I would just like to add to that a little. The word "central" implies that the charges are central to all activities. Well, it is abundantly clear that there are tucked away in those items one or two things which are not "central" charges.

2916. (Mr. Fay): You mean like the salaries of the Members of the London Transport Executive?—There is one example, yes.

2917. And the total Central Charges figure is brought out in your SWH 2 for 1959 as £61.2m.—Yes.

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2918. That is what the Commission has got to pay, and the exercise we are engaged in is seeing what is the fair amount for London Transport to contribute, is it not?—Yes.

2919. There are two quite different methods of approach to this problem, are there not, the global and the specific?—Three.

2920. What is the third, the hybrid?—No, the guess or judgment, which is your method. Mine is the global or the specific method, the other is the judgment method. There are really three methods not two.

2921. I think that answers some of the questions I was going to ask. The specific method I think we can agree about in principle, can we not, although we differ in detail. It is an attempt to do the entire thing mathematically?—Yes, we can agree.

2922. Introducing as little judgment anywhere as possible.—As little judgment or guesswork as possible.

2923. Judgment may have to be substituted for facts where facts are incapable of ascertainment.—Where they are incapable of ascertainment, yes; otherwise I quite agree it is a mathematical approach.

2924. And it has the attraction to the logical mind of precision.—Well, it has the great virtue of precision to all minds, I think.

2925. I have met people whose minds did not appreciate precision, but we will pass that by. Those of us who are attracted by the specific method as specifying logic?—As the whole thing is really an exercise in financial affairs, financial matters, it is a field in which precision is very desirable.

2926. Of course, you never bother with the £61.2m. on the specific method, do you, that does not enter into the calculations anywhere?—It is not there at all.

2927. It is not a question of cutting cake, it is a question of building up the segments.—That puts it perfectly.

2928. The global method involves cutting the cake, does it not, or segmenting the globe?—Yes.

2929. You cannot do that mathematically, can you?—Oh, yes you can.

2930. I thought perhaps that was what you were going to say. You have plumbed for your alternative, your method of taking the ratios of the total net assets as a mathematical method of cutting the cake, have you not?—Yes, that is all mathematics. I do not think there is at any point, really, where one has to do anything that is not a mathematical process.

2931. Having got to the final result, you are satisfied that that is the result; it is not merely a test, it is a result?—Yes, it is a result. I am not going to say it is accurate to a very, very marked degree, but it is certainly accurate to the degree within which we work in these matters.

2932. Mr. Hill, you did use the word "test" in relation to it this morning, perhaps inadvertently, I do not know; but that is what it is, is it not?—I do not mind what you call it.

2933. If you are going to cut your cake, take your £61.2m. and find out how much to slice off and hand over to London Transport to pay, you cannot just do it by working out a sum, can you?—You can. On your own analogy, there would be a few crumbs that get attached to one piece of cake or another, but they would only be crumbs, your slices are going to be accurate enough.

2934. Accurate judged by what standard?—By the basis of the exercise, namely the standard of capital investment.

2935. It is a short-cut to the specific method, is it?—It is not a short-cut to the specific method it is, as you rightly said, the reverse of the specific method. In the global method one starts with the whole cake and divides it up, whereas in the specific method one builds up the parts. If one did the specific method for every activity of the Commission one would get a whole 'not dissimilar from the cake one started with on the global method. I

do agree—and I think I mentioned this in evidence—that as both exercises are concerned with the same basic element, namely interest on capital, service of capital and capital invested, they must necessarily produce very similar results over the years.

2936. But, you see, you leave out what I ventured last time I addressed the Tribunal to call the imponderables, do you not?—One reduces them to the very smallest field that one can.

2937. Were you here when I opened this case and mentioned that Metropolitan Line from Amersham to Aylesbury is going to be handed over to British Railways?—Yes, I heard that.

2938. Supposing you have an SWH 2 next year and that has been done, how will you adjust it for that transaction?—It will be recorded in the Accounts. It will be given effect to.

2939. Let us assume it was done in 1959, since we have got the figures in front of us. It will diminish the fixed assets of London Transport and increase the fixed assets of British Railways, I suppose?—Which way is this agree it is a mathematical approach.

2940. London Transport is handing it over to British Railways. That is right, is it not?—Yes.

2941. It will diminish the fixed assets of London Transport and increase the fixed assets of British Railways.—That is right.

2942. It will decrease London Transport's Central Charges?—Indeed it should.

2943. Why?—Because London Transport is contracted and the other part of the cake has got bigger. That is just what should happen.

2944. Irrespective of the fact that London Transport is going to be better off and British Railways worse off after this?—Yes, because the capital invested in London Transport will be less than it was before it handed it over. To take it to its logical conclusion, let us assume that London Transport divested itself of all its Underground Railways, by the same analogy I would say its contribution to Central Charges should be less.

2945. By the amount of the book values?—By the amount of the book values in the sense that there is nothing but the book values to work on.

2946. But if London Transport was making a handsome profit on its buses and retained them and a handsome loss on its Underground and got rid of them, that would produce a thoroughly unfair result.—A thoroughly fair result, because they have divested themselves of some of their capital, and if you divest yourself of part of your capital you expect to divest yourself of part of your capital obligation.

2947. You accept the logical result?—I accept it and believe in it.

2948. You see no room here for the exercise of judgment in arriving at the figure thrown up by your table?—No, because judgment in that matter can only be informed judgment if it is based upon some figures, in which case you are back where you were, or otherwise it is a person's guess or a person's inclination. It is not judgment in the sense that one is weighing it up.

2949. I think we have fully explored the difference between us. The approach which the Commission has always taken is one of looking at all tests and performing a judgment in the light of all the information.—I do not think it has really been that. That is what they have said it is, but to be able to justify themselves they have had to bring in some tests which, quite honestly, I think are quite irrelevant, like the number of staff and things like that.

2950. Tests which are to be looked at and given very little weight, perhaps?—If you like, but I would have thought a test of that kind you could almost dismiss.

2951. I am not sure I have got your answer to my question. I asked you to agree that the Commission had

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always exercised judgment fortified by and informed by the data they could obtain. You say you do not think that is the way they have done it. How do you think they have done it if they have not done what they said they were doing?—I think in their minds they have thought "We ought to get from London £Xm.". I agree that they have had regard to various factors, but I believe some of those factors are entirely wrong.

2952. So your form of global approach is like your specific approach, mathematical?—Oh, indeed, yes.

2953. You work out the figure and that is the be all and end all?—Absolutely, yes.

2954. And that is SWH 2?—That is SWH 2, yes.

2955. I think I am right in saying it was last time for the first time that stores and materials appeared in it?—Yes.

2956. Of course, the appearance of stores and materials has the effect of depressing London Transport's contribution, according to this test?—It does a little, yes.

2957. We have worked out that if you omit stores and materials—that is lines 2 and 9—the Central Charges for 1959 are increased from £5.3m. to £5.5m.—I question that. It may be so if you have worked it out.

2958. I will tell you what I will do. I do not want to waste time, so I will hand you a copy of the working, because I shall not finish today, and you can tell me tomorrow morning if you have any criticism of it.—I did a quick test and it looks about like that.

2959. It is rather fortunate for your case that you discovered about stores and materials in 1959, is it not?—I did not discover about them in 1959. The first time I knew about the figures as regards London was 1959, but in 1954 I believe I demonstrated an apportionment by reference to the fixed value of assets and I believe—and I am straining my memory here—I pointed out that it was not all the capital, there would be stores and other things but I could not give effect to those. But it does have that effect, it does reduce the contribution compared with the calculation if one did not have regard to it.

2960. Stores and materials are current assets.—They are current assets of very considerable consistency. They are not like bills and tradesmen's accounts which are subject to day to day fluctuations, stores and materials are reasonably static over the years.

2961. But they have to be bought.—They have to be bought and they are being issued, yes.

2962. They are being bought on credit usually, are they not?—Yes, short-term credit, I would say.

2963. Yes, I do not mean long-term credit. The prices of the stores and materials will appear in the sundry creditors and amongst the liabilities, will they not?—The bills for them will be in sundry creditors, yes.

2964. If you can ascertain how much of the sundry creditors was in respect of stores and materials you ought to deduct it, ought you not?—No.

2965. Why not?—Because as near as no matter, regardless of the inflow and outflow of stores, there is a volume of stores being held. Now that is what this figure of stores and materials is, capital actually locked up. There is no need at all to start adjusting it by the creditors or the cash balances.

2966. Insofar as it is paid for it is capital borrowed on interest free loan, is it not?—It is.

2967. And you are attributing interest to it?—That is quite true, but, you see, this week you pay last week's bills and next week you pay this week's bills, and it evens out perfectly.

2968. But this is a balance sheet figure as at a given day, is it not?—Yes, I am taking the mean of the two balance sheets.

2969. It would not increase London Transport's interest, which is the end produce of this exercise, by one penny if London Transport, on the 31st December in a

given year, bought on credit £100,000 worth of stores, would it?—On the 31st, no.

2970. There it appears in the balance sheet on that day but is not paid for.—That is quite true, but, of course, that is such a fantastic assumption that they bought their stores on the last day of the year. They do not do that; they are buying their stores every day of the year.

2971. Just as there is a balance always of stores in hand, so there is a balance of debts due.—Yes.

2972. Bearing no interest?—That is quite true. That does not mean you should knock one off the other.

2973. Even if your exercise is to ascertain invested capital on which interest is payable?—All you should do at the very most is to find the difference at 1st January, 1959, say, and 1st January, 1960, find out the difference between the outstanding creditors for stores, and take half of that. The answer would be of no significance at all to this.

2974. Why do you not put the other current assets in?—I think the other current assets are not put in because they are not so consistent and they do not represent capital locked up in the same way as stores or in the same way as fixed assets. But I do accept that in principle, to give an absolutely complete picture, one should strike an average figure for other current assets as well. It just is not worth doing.

2975. But it is easy enough to go the logical end and take in all the assets; that involves not only the net fixed assets but the net current assets?—Yes.

2976. Why do you not do that?—I do not do it because I have satisfied myself that it is just not worth it.

2977. But if there is a substantial balance of net assets, it is something which has been buried—No, it is the other way about. There is not a balance of net current assets but of net current liabilities. It reduces the capital investment; it is a disinvestment of capital, not an investment of capital.

2978. And that would work against you if you put it in your tables?—No; it works for me.

2979. It depends on the relation of disinvestment of London Transport in British Railways?—My table SWH 10 demonstrates that had I gone to the extent of putting in any current assets and liabilities, that would have reduced the London Transport proportion and it was a reduction of £30,000 a year, which is not very much.

2980. The balance sheet published in 1959 shows an excess of assets over liabilities among the net assets?—But you have included the stores again; they are already brought in. If you take them out—

2981. Yes; if instead of your figure of £4.0m. for stores, you had the figure for net current assets, it would make quite a considerable difference?—Yes—in my favour.

2982. Are you quite certain about that?—I am.

2983. Then why do you not do it?—Because it is adding unnecessary complications. I have satisfied myself that there is nothing of real merit in bringing things like this in; but if there is another occasion, Mr. Fay, I shall probably do so, just to avoid any criticism of the accounts. To add this would only make a very small difference; that is axiomatic, and it is because London Transport collects its revenue daily and British Railways does not on its railways and to some extent on its harbours. Therefore British Transport as a whole must have a sizeable sum locked up in debts due to it, whereas London Transport has not.

2984. It all depends, does it not, on the banking habits of the organisation?—Neither of them keeps money in the office; they put it in the bank. Therefore that is exactly the same.

2985. We may get back to that in another connection—money kept in the office or in transit to the bank—but that is later in the story. You have agreed, have you not, that if you omitted the stores, the Central Charges would

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be £5.5m.?—But I do not agree the omission of the stores.

2986. No, I appreciate that. Now let me turn to your other method, on SWH 3 and SWH 4; this is your improved PJ 16, the specific approach revised?—Yes.

(President): It is also an improvement on revised WHL 1.

2987. (Mr. Fay): Yes, Sir; I am not quite sure that I agree with "improvement", but it is a variation of WHL 1, which no doubt Mr. Hill has studied—it studied it in 1959, and I have had occasion to look at it again more recently.

2988. You said this morning that you could not understand Mr. James in the way he dealt with the dowry of £40m. odd, the Trust Fund; you said it puzzled you very much?—Yes, it did when I first saw it.

2989. It is clear to you what he has done, although you are puzzled as to why he did it?—Yes; it was the reason why he did it that puzzled me.

2990. The Trust Fund was part of the assets of the London Passenger Transport Board, was it not?—This Trust Fund, yes.

2991. And it is Mr. James's deduction of the interest attributable to the Trust Fund that you find difficult to follow?—What I find difficult to follow is deeming that it had been used in reduction of stock, yes.

2992. I am not quite sure why you say that; it is the words: "it being assumed that to this extent the British Transport Commission were able to avoid issue of capital stocks"?—Yes; he is assuming.

2993. Yes. What is wrong with that?—It is not a valid assumption.

2994. Why not?—Because it was just not true.

2995. Was it not?—No.

2996. You have attributed the £40m. to London Transport?—Yes, for this purpose.

2997. Do you mean you used it to avoid an issue of stock?—No; I have used it for what it was, namely, money in hand.

2998. Yes, money available to be used for capital purposes?—Yes, when wanted.

2999. And if it had not been there, stock would have had to be issued?—At different periods and at different times, if it had not been there.

3000. Yes, and that is what you have done?—Yes, I have used the money in that way.

3001. And so has Mr. James?—No. What he has said is: "I am going to lend this permanently to father—the British Transport Commission—at 3 per cent."

3002. No he has not, you know.—He has.

3003. I venture to suggest that you may have misread what the note says, Mr. Hill.—I have seen what he has done on his figures.

3004. He has said: "I have £40m.; therefore I, the British Transport Commission, do not need in 1958/59 to borrow £40m.—He cannot say that. There was no need to borrow, whether you had it or not. You had tons of money for the first five years of your life; the one thing the British Transport Commission did not lack was cash."

3005. Do you say that the Commission issued no stock after that issue to buy the vested undertakings?—After 1954/55.

3006. No, that is not right—

3007. (President): How did they get the wagons?—That again is vesting. No stock for general new capital purposes was issued.

3008. Until 1954?—It was 1954 or 1955; I am not quite sure which it was.

3009. (Mr. Fay): You see, Mr. Hill, my instructions are that the British Transport Commission issued a good deal of stock in those early days.—For what?

3010. Never mind for what; they issued it and, if they had the money in the bank they would not have issued it.—Then the accounts are wrong. The stock was issued in 1948, and the next issue and the third issue were all for vesting.

3011. What about taking over the road haulage undertakings?—That is vesting.

3012. But it was post-1st January, 1948, was it not?—That does not matter; road haulage was paid for in stock.

3013. Are you saying that no purchase price of compulsorily acquired road haulage undertakings was paid for in cash?—I would not like to say there was none; there may have been some odd ones, but—

3014. (President): Surely compensation to road hauliers was paid in cash?—No, Sir; it was paid in the main in stock. In fact—"stock issued during the year as compensation in respect of road haulage undertakings", etc.

3015. (Mr. Fay): It does not say "issued to the road hauliers"—But it was. I was concerned with a road haulage undertaking, and we got stock.

3016. (President): Which one was it?—It was a small haulage undertaking of which I was the auditor. I forgot the name, Sir, but it was a little group of undertakings; it was Dale's Transport.

3017. I thought there was an Arbitration Tribunal—I had nothing to do with it myself—and I thought those awards were paid for in cash.—There may have been some paid in cash, Sir, but I do know that the bulk of the compensation was in stock.

3018. (Mr. Fay): I do not know the answer myself, but I am instructed that a great deal of stock was issued and that it is capable of ascertainment. But you are saying that the Commission had not necessity to issue stock after they got the Trust Fund into their hands while interest rates were still 3 per cent.?—There was no necessity to issue stock to any significant degree, but there might have been some little bits.

3019. But you say there was no necessity to the extent of £40m.?—No.

3020. So that the first time the Trust Fund did them any good was when the interest rates rose above 3 per cent.?—No; it did them good at the moment they had it, because it was in various securities and it earned its keep.

3021. It was presumably invested and it was bringing in an income?—It was indeed.

3022. But you say that Mr. James is quite wrong in assuming that they were relieved from the necessity of issuing stock?—Yes.

3023. I understand now what you are saying, and now that I understand it, I will try and find out the facts. The British Transport Commission acquired the whole of the undertaking of the London Passenger Transport Board?—I think every bit of it, yes.

3024. And it issued stock?—Yes.

3025. Which, as the note to PJ 16 says, was £128.08m.?—Yes.

3026. That was in respect of that acquisition?—Yes.

3027. In return for that stock it got the undertaking of the former London Passenger Transport Board?—Yes.

3028. And it got the Trust Fund?—Yes, that is so.

3029. And it got the surplus lands?—Yes.

3030. Why do you not bring the surplus lands in?—I can be very frank about this, Mr. Fay. The surplus lands is a very small item which has never been capable of being resolved finally. I believe that one should deal with surplus lands in one way; Mr. Lawson thought so; neither Mr. Lawson nor I can prove the figures that were

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necessary, and I have done nothing more than conveniently forgotten them. In doing so, I was presumably giving a point, but I had not the heart to flog the battle; I gave them up years ago.

3031. But if you gave them up, you have to give up the Trust Fund too?—Of course not; they are two entirely different things.

3032. Are they?—Yes.

3033. London Transport came with its assets, its Trust Fund and its surplus lands?—A little bit of surplus lands.

3034. But the principle is not affected by the size of the land?—No, but the exercise is affected by whether we are dealing with something which is of importance or not of importance.

3035. You mean that although you have been beaten before, you would still have another go if there was £0.1m. in it?—I am still of the view that the right way of dealing with the surplus lands is to find an appropriate amount relevant to their value in 1948 and to bring that in, or contrariwise to bring in the income from the surplus lands; but it is impossible to get a figure, and as the amount involved is so trivial in relation to these other assets, I have, so far as I am concerned, buried it.

3036. So you accept Mr. James's figure of £3.41m.?—Yes, just not to argue any more about it.

3037. But it is not the difficulty of the figures; it is the difficulty of the principle?—I do not think so; I think the figures are much more than the principle. The principle does not matter twopence.

3038. You know, do you not, what happened when the London Passenger Transport Board was taken over; the London Transport Executive was set up and the Transport Undertaking was transferred to it?—Yes.

3039. Not the surplus lands?—No.

3040. Nor the £40m. Trust Fund?—No, of course it was not; that was put in the whole of the British Transport Commission. What we are dealing with here is to see how much of this is relevant to the London undertaking, and without question the Trust Fund was.

(President): Mr. Fay, you spoke of the London Passenger Transport Board Undertaking having been acquired by the Commission, or transferred to the London Transport Executive—

(Mr. Fay): I think I said: "the Transport Undertaking", meaning the assets used for the Transport Undertaking, Sir.

(President): Is that right? Was not what was entrusted to the London Transport Executive the management of the Undertaking, if one looks at the delegation?

3041. (Mr. Fay): Yes, Sir, of course you are right, but for the purposes of this exercise I think Mr. Hill and I will both have to assume that the organisation, whatever we call it, at least has the Undertaking.—Yes.

3042. You say it has the Trust Fund as well?—It is not a question of having got it in the sense of legal ownership; I do not think the London Transport Executive owns anything legally. It is a question of seeing what is the figure relevant to the London Transport Undertaking, and I say the whole of the Trust Fund.

3043. But what I have tried to get from you, and I do not think I have it yet, is: what difference in principle is there between the Trust Fund and the surplus lands?—The Trust Fund was relevant entirely to the Transport Undertaking; it was a Fund which was built up for the arrears of maintenance, etc., of the Transport Undertaking, so it is linked with that. For the purposes of this exercise with regard to the lands, I agree that there is scope for a difference of view as to whether they are part of the Transport Undertaking or not.

3044. So we would have to delve into history and find out what was in someone's mind when the assets were created?—No; all you have to find out is: What did the Commission do in 1948 and why did they hive it off from the Transport Board.

3045. Have you asked that question, "why did they hive it off?", in relation to the Trust Fund?—They did not hive it off.

3046. They kept it?—Of course—they kept everything; they cannot divest themselves of it. What they have to do is to find everything they have and see what relates to the Transport Undertaking, and the whole of the Trust Fund related to the Undertaking.

3047. But what do you mean by "hiving it off"?—They treated the surplus lands as something not to do with the Transport Undertaking.

3048. (President): They did, but were not the surplus lands in the hands of the London Passenger Transport Board, linked with their Undertaking?—They acquired them because of their Undertaking; they were surplus to their operational requirements. I would have said, and have said, that the fairest way would be still to regard them as belonging to the London Transport Undertaking, but it is impossible to resolve this one and, of course, there is very little in it.

3049. (Mr. Fay): Very well, I will pass from that; I think I am happy with your last answer. Now may I look at Exhibit SWH 3 with you? Before we do that, there is one matter which I should logically—and I am trying to be logical—deal with before we get to the detail. In addition to the Trust Fund you have taken in as part of the nest-egg the net current assets of the London Passenger Transport Board less a sum which you say is required for working capital?—Yes.

3050. From where did you get the net current assets of the London Passenger Transport Board?—From their Balance Sheet.

3051. It is on Page 50; would you tell me how you worked the figure out?

3052. (President): Mr. Fay, I am quite certain that you would not wish to be disrespectful to the Tribunal, and I am equally certain that Mr. Hill would not, but we did decide the principle as to the surplus funds in July, 1953, by saying that they were not to be treated as being part of the assets which were used for the purpose of providing the services which we were costing and charging for.

3053. (Mr. Fay): Yes indeed, Sir; but it has been so often said that everything is still open to argument that I was venturing to pursue it. I am afraid I may have taken rather longer than I should have taken over it, but I have now passed on. I did not think there had been a decision about this one before, because this is new this time.

3054. (President): But when you talk about everything being open to argument, you know that the whole of Mr. Hill's specific tables are capable of raising a point which is open to argument, namely, all the figures about net revenue which, of course, are taken from the Commission's accounts; and that is net revenue after allowing for an historic depreciation charge. If one held the view that the charge ought to include something for replacement in every year since 1948, the net revenue would have been less, but by how much less no-one has yet worked out. I see Mr. Hill does not agree with that?—No, Sir. I as sure you would not suggest that replacement and depreciation should only relate to London; you meant in respect of all its activities?

3055. Yes, of course. I say that when you are dealing with your specific approach tables, SWH 3 and SWH 4, you are taking as net revenue a figure which is arrived at after an allowance in respect of depreciation on the historic basis, because that is how it is arrived at in the Commission's accounts?—Yes, that is how it is arrived at.

3056. But if one is going to exercise one's imagination and think that a new London Passenger Transport Board is coming into existence, and the facts being as they were in 1948, one's imagination might quite easily see that if they had been wise something would have been charged for replacement as well as on the historic cost?—Yes, and the results would have been a greater deficit against London; but they would have had a bigger reserve in hand, and the two would have cancelled out.

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3057. They might or might not; it would depend on calculating each year what the difference was between historic depreciation and depreciation based on replacement cost, and the figure at the end would be different?—Yes, Sir.

3058. Really the whole matter is where imagination is allowed to stop, and where hard facts come in?—Might I say this on that particular point, Sir; I think it may be the perfect example of where you stop at hard facts or venture into imagination. The fact is that depreciation has been on historic cost.

3059. Yes, I entirely agree. — Therefore, adhering to those facts, you get the figures that I have used. It is so, of course, in all the other public industries, but it is a different point.

(President): Yes; we shall be back on the Herbert Report if we are not careful!

3060. (Mr. Fay): Do you include the Post Office?—Yes.

3061. But they have to show it separately; I forget whether they charge it above or below the line.—I think they have to show an intention?—

3062. No; they charge it.—I have not seen it.

3063. But we do not want to worry you with that. Now will you turn to SWH3, where you have the figure of £3.5m. current assets under the Transport Board; it is column 3, net current assets of the old London Passenger Transport Board, £3.5m.?—Yes.

3064. I am wondering where you got that from?—I think I can give it to you quite clearly. I take that sub-group in the Balance Sheet on the assets side, the right-hand side, where it says "Current assets"; that is £13,056,736. From that one has to knock off creditors and other liabilities to the exclusion of any internal funds. You must not knock off internal funds; that is purely an internal matter. The first item which is knocked off is £7,803,586, creditors and accrued liabilities. The next item is funds; it is not creditors or liabilities. You knock off their indebtedness to the Savings Bank, £481,118.—I am adding up the items you have to knock off now. Then there is the interest that is due at the end of the year, £1,285,328, and a bit of unclaimed interest, £5,012. The total of those items is £9,575,044. The difference between the current assets and liabilities is therefore £3,481,692, or in round figures, £3½m. That is how that figure is obtained.

3065. So you start with all the current assets?—All the current assets, yes.

3066. Of which considerably more than half are debtors and payments in advance?—That is quite true.

3067. And you have assumed that that is something which could be drawn upon as capital, have you?—Yes, in the hands of the new Undertaking. Except what they require for working capital, it is a capital fund.

3068. So you are assuming that they are going to press their debtors even harder than the old London Passenger Transport Board did?—No; I do know now that the debtors are nothing of that moment, but why they were just that big at that time I cannot say.

3069. You are merely equating the debtors with money in the bank?—Yes; they do become money in the bank as soon as you get the debt in.

3070. But it depends on how long the debt continues?—No; you can say that the creditors and debtors roughly cancel each other out, and here they do. London Transport were owing their creditors at this stage more than their debtors were owing them; it was a capital disinvestment in fact.

3071. Anyhow, that is where you got it from. You are saying that it was too much to keep?—To keep fluid yes. There was no need to lock £3½m. up in the bank.

3072. And that is a criticism of the conduct of the old London Passenger Transport Board?—Not at all. I think the position is a reflection, to some extent—and I

cannot pretend to track this through—of the war-time position. It was the accumulated position at the end of the war. There was a fair amount of cash and a large sum of assets and liabilities, and I have a vague recollection—I used to be concerned with the rating of London Transport—of looking at the position in 1946 and 1947 of the Railway Assessment Authorities, and I know then that there were questions of the allowances and the large figures which accumulated in the way we knew about at that time.

3073. You have taken the sum into your nest-egg on the assumption that the new London Transport Executive, if that is the notional body we are dealing with, did not need anything like £3.5m. current assets?—As working capital year in and year out, yes.

3074. The only reason why they have not at present such large capital assets is this, is it not, that their bankers are the British Transport Commission and they do not need to keep such large assets, because the parent lies behind them?—I do not think that makes any difference.

3075. Do you not?—No. If you had London Transport either as an entirely self-financed part of the Commission, or for that matter under different ownership, its true requirement for working capital as working capital is precisely the same. The only factor where it might be thought that linking up with the British Transport Commission would help them in their financing is if at any time in the year they have to place a very large order for fixed assets, but that is a different thing. I agree that that could help them, but that is fully reflected in the other part of the calculation where we take the interest on the fixed assets. I cannot think that having the British Transport Commission behind them helped the working capital position at all.

3076. Have you enquired how much cash they have to pay out in wages every week?—No, but I would say that it is about £450,000; it is something like that.

3077. That is your guess, is it?—Yes, I should think so. I am thinking of buses only there; it would be getting on for £800,000 or £900,000 for the Underground and the buses. But you see, the Commission does not have to find that; that does not involve a strain on the working capital. The wages are paid a week in arrear, and by the end of the week they have collected a week's income.

3078. Yes, which shows in the Balance Sheet at the end of the year, just as it did in the last Balance Sheet of the old London Passenger Transport Board?—Yes. Public Passenger Transport Undertakings do not require much working capital; they require very little indeed.

3079. If £1m. is right for the weekly wages bill, they only require a week's wages, and—They do not need the week's wages; they have the money in.

3080. The money they have in is in at the time the Balance Sheet is struck?—Yes.

3081. What is the relevance of it; it is part of the current assets?—Yes.

3082. The fact that it is circulating all the time does not affect the question at all, does it?—No.

3083. I thought not. You are saying at any rate that the London Passenger Transport Board had an excess over what it needed, and you think that not more than £1.3m. is needed?—£1.3m. working capital.

3084. If £3.5m. were needed, there would be no addition to the £38.8m. Trust Fund in your calculation?—Yes.

3085. Mr. Lawson did not think it was indeed?—Apparently he did on second thoughts. It is in his notes which are printed at the very end, where he noted this.

3086. His table is on Page 496; that was omitting it. The revised table was produced on the last day when everyone had had a lot of opportunity of thinking about the matter?—Yes; I am looking for the notes that were put in by the Middlesex County Council, and I know that Mr. Lawson referred to them there.

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[Continued]

3087. Yes; that is on Page 494, column 1 the last paragraph but one.—Thank you.

3088. I think that is right, is it not?—Yes, I think it is. Yes; he draws attention to the fact that the net current assets had been reduced over the years, and he says: "This reduction has been ignored by both Mr. Lawson and Mr. James for convenience, but it could be applied towards capital expenditure and deficits, correspondingly reducing the burden of interest. This point becomes more important if Mr. James's adjustment of the L.M.S. Loan is accepted.

3089. But it is not so; it is a reduction which could take place at a stroke of the pen on the 1st January, 1948?—No, he does not say that.

3090. But you have assumed that?—It is quite clear that nothing like £3½m. was needed for working capital.

3091. And of course Mr. Lawson, who knew the facts, and who engaged in considerable debate on them, produced his table WWL 2 (revised) at the end of the Inquiry?—Yes.

3092. That starts off at the beginning of 1948 with surplus funds of £38.8m., which is the net amount of the Trust Fund?—That is so, yes.

3093. If I follow your document SWH 3, you start off with £41.0m., and in column 15 you enter how much of the nest-egg is left out at the end of each year?—Yes, that is right.

3094. Having added to it any accumulated surplus?—Yes, and having deducted from it any capital expenditure over and above depreciation.

3095. Yes, and as long as there is any money in column 15 in credit, you say that that is a fund which you can draw upon for capital expenditure at 3 per cent.?—I have taken it at 3 per cent., yes.

3096. Down to the time when it is exhausted?—Yes.

3097. And it does not get exhausted, according to your table, until 1960?—That is so; it is in the early part of 1960.—

3098. So your notional Executive has been in the happy position of borrowing at 3 per cent. right down to 1960?—It has been in the perhaps unhappy position of having lent its money to the British Transport Commission and only getting 3 per cent. on it. As I mentioned this morning, there is the making of an argument that the British Transport Commission for this exercise should be deemed to have paid the current rate on it, but I did not take it that far.

3099. It could be invested in anything; it could have been invested in Premium Bonds, and they could have hit the jackpot?—You are deeming—

3100. But you are doing a little "deeming" on your own account, are you not?—I have deemed that there was no alteration.

3101. You have to deem the fund to be somewhere to start with?—We know where it was.

3102. It was in the coffers of the British Transport Commission and the Executive; you have deemed it to be in the pocket of London Transport?—No, I do not mind where it is, as long as it earns its interest.

3103. (President): We need not bother about the verb, Mr. Hill; you had deemed it to be a loan from the London Transport Executive to the British Transport Commission?—Yes.

3104. (Mr. Fay): And the result is that compared with the position as it would have been if you had not had this nest-egg, you do not need either to pay or forfeit interest at more than 3 per cent. until 1960?—That is right.

3105. If your column 15 had ceased to show a credit in the earlier year, the higher interest rate would have started at the earlier year?—Yes, it would have been 4 per cent. somewhere around 1953 or 1954.

3106. Yes; it changed to 3 per cent. in 1952?—In PJ 17, yes.

3107. And in 1953 and again in 1954 you got perilously near using your little rump of the funds?—Yes.

3108. It was really teetering on the brink in 1954; it got down to £0.18m.?—Yes. That would not have mattered; it would have been reinstated a month or two after.

3109. Mr. Lawson got this in 1953?—I think it was only the way in which he showed his figures.

3110. Let us look at WHL 2 (revised) which is on Page 496. Would you look at the column head "1953" at the surplus funds at the end of the year. Do you see the very last item; it is minus £2.6m.?—Yes, but that would have been recovered to a credit again almost immediately afterwards.

3111. Never mind; it would not have recovered the 3 per cent. interest would it?—I do not know, but that does not matter.

3112. Once you have exhausted the fund, if you build up some more, you have to lend it at the current rate, or borrow it at the current rate?—I think if it were exhausted and remained exhausted for a year or rather more than a year, it is right to say that it has gone and that therefore the new rate should apply.

3113. And that would mean that yours would have gone if you had not brought into it the £3.5m. less the £1.3m. net current assets?—Yes; it would have gone for about a year.

3114. Yes, and that would have turned the interest rate back all the ensuing year?—Possibly. I said "a year or thereabouts"; I am not quite certain, but it is perilously close to it, yes.

3115. I have listened with admiration to your method of calculating interest; I hope that some day I shall understand it and be able to try it on my own bank manager.—But that is how he would work your account, if you had a day-to-day balance arrangement.

3116. Let us see how it applies in your table. Take your first year, 1948: the surplus for the year is £3.5m. before we start adding any interest, is it not?—No.

3117. Let me take it in stages. In 1948 the net revenue was £7.52m.?—Yes.

3118. You deduct from that columns 8 and 9, which together come to £4.02m.?—Yes.

3119. The balance is the net revenue before interest, is it not?—That is right.

3120. That is surplus?—That is surplus before interest.

3121. And that is £3.5m.?—Yes.

3122. 3 per cent. of £3.5m. is what?—£0.107m.

3123. I thought it was £0.105m.?—It depends on how far you take that decimal, I think.

(President): It is £1.074m.

(Mr. Fay): It is simple interest for a year at 3 per cent. Sir; I thought you simply multiplied £3.5m. by three and shifted the decimal point.

(President): Yes, but if you multiply 58 by three you get 1.074.

3124. (Mr. Fay): But it is £3.5m.; I have worked it out, because the figure of £3.50m. is not given here. (To the Witness): It is column 7 less the sum of columns 8 and 9, and that is £3.5m.?—Yes.

(President): Yes; both Mr. Hill and I were wrong. On the sum you are doing it is £0.105m.

3125. (Mr. Fay): If you please, Sir. (To the Witness): In column 10, you credit interest on that £3.5m., amounting to £0.08m.?—Yes.

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[Continued]

3126. Which is something above nine months' interest, is it not?—If you look at it that way, but of course that is not how it is done.

3127. I am anxious to know how this is done, because it strikes me as being a wonderful way of making money.—Now, let me first of all make it perfectly clear that this is not an ingenious or wonderful way of making money; this is in fact how interest is calculated in business.

3128. You say so, but those instructing me are not quite so sure of it—I am really most surprised at this; you say that I am always surprised, Mr. Fay, but I really am surprised about this.

3129. We are assuming in column 10 that the body is earning a revenue surplus of £34m. in 1948 spread uniformly throughout the year?—That is where the fallacy is. The point is that in getting at that surplus of £34m., uniformly spread throughout the year—it is £3.71m. Can I carry on with the illustration?

3130. Yes.—This is the method. The net revenue is £7.52m.; it is right to take from that the item of £0.031m., because that is working expenses of a different kind.

3131. (President): I do not understand why it is.—Well, Sir, it is a share of weekly wages, monthly salaries and things like that; it is not an interest payment. It is the kind of payment which has already been taken into account in getting at the net revenue of £7.52m.; it is a daily, weekly or monthly outgoing. That is the point; the net revenue then, other than the interest, is—

3132. (Mr. Fay): Of course it is not, is it? Some of the gross sums treated as central expenses by the British Transport Commission's Accountants are sums which accumulate gradually over the year; some are not and some are?—That is quite true. What I have done is not to strain it in my favour: I have taken the whole of this off. I could have added a further refinement by making a sub-division of that, but I have not done so because its effect is insignificant. I make further sub-division and I have therefore, if you like, erred against myself. The net revenue is £7.52m.; you take off the whole of the £0.031m., so that is £7.21m., to begin with. The mean of that figure for the year is £3.60m. The interest on £3.71m.—half of that, or as near as makes no half of it—has run for nearly a year and the other half has not run at all; it is not taken until the end of the year. So you take a quarter of that figure, £0.093m., and knock that off of the £3.6m. You apply 3 per cent. to that, and the answer is £0.08m.

3133. If I understand you, you are relying on the fact that the second half-yearly interest payment is made on the 1st January and not on the 31st December?—No; it applies if it is made on the 31st December as well. The only point is that if you paid your interest daily, which of course you do not, then you should have done the calculation as it is done in PJ 16. If you pay your interest anything less frequently than daily, you need to make an adjustment for it. If you paid it weekly, that is not very different from daily and it would not make much difference, but in actual fact all your interest, both ways, can be regarded as half-yearly.

3134. Is not the object of your working capital to provide for payments such as interest payments half-yearly?—On working capital?

3135. Yes; this is the year when you say that the notional body we are dealing with started off with a capital of £3.5m.?—No, it is not the function of working capital to do that. Imagine that your year, instead of ending in December, ended in September; you would then have two half years, one of which, as near as makes no matter, could be regarded as winter, and one, as near as makes no matter, which could be regarded as summer. It would then be the function of your working capital to tide you over the winter and amongst other things to provide the interest, or some contribution towards interest, in the winter half year. That is one of the functions of working capital; it is to help you with the fluctuations in your income, but not otherwise does it affect the interest.

3136. I see; so the interest which has to be paid periodically is not something you expect to pay as a matter of cash out of your float?—No; you are paying it out of your earnings.

3137. Out of your surplus, apparently?—Yes.

3138. And what do you do when you get to a deficit? Then it is in this calculation, as in yours, added to the deficit, and it bears full interest next year.

3139. Is this the result of your giving us this little working capital of £1.3m. that you have to do this?—No, this has nothing to do with the working capital. This is the right way, I say, of calculating interest that changes during the currency of the year.

3140. (President): Was it the way which was followed by Mr. Lawson in his surplus funds?—I do not really know, Sir.

3141. You could find out if you knew what rate he was charging?—I think he was working on means.

3142. My impression is that he was doing it this way, but that might easily be wrong.—He is taking averages throughout.

3143. (Mr. Fay): To take the example of your first year, he is saying that £3.5m. is the surplus for the year, and he is allowing interest on half that?—Yes, but he is taking the average and he has brought everything in—capital depreciation and everything. I think it would be true to say that he has not adopted this method; he is working on the means.

3144. (President): Therefore, it would be true to say, would it not, that there are alternative methods, and that yours is the method you prefer?—I do claim, Sir, that it is the recognized method of calculating the burden for interest where some of the outgoings themselves consist of interest. It was a measure which was extensively in estimating the capital requirements to bring in coal nationalization.

3145. (Mr. Fay): Have you Mr. Lawson's table WHL 2 (revised) in front of you; it is on Page 496—Yes.

3146. The 1948 column ends up with an entry of £1.1m., which is 3 per cent.?—Yes.

3147. Is that his substitute for your columns 6 and 10 and 11; that figure of £1.1m. is all the interest he allows on the surplus funds in 1948, is it not?—Yes, that is true, but it is not strictly comparable because for some reason that I cannot readily see he has different figures of net capital expenditure and excess of maintenance from the figures I have.

3148. (President): Is that his substitute for your columns 6 and 10 together, you have £1.23m.?—Yes, and he has £1.1m.

3149. (Mr. Fay): But still, what is clear on this table surely is that in calculating the interest earned and to be credited to the Undertaking next year he has averaged the surplus funds available throughout the year and has taken the 3 per cent. on the average?—He has in every respect all through.

3150. If you had not adopted his method, you would have got down to the debit balances in column 15 in 1954, would you not?—I am not sure. I will look at that, but I would not say; I do not know whether that is so or not.

3151. If you had not adopted this method of adding interest, I suggest you would have got over the brink of exhausting it in 1954, when on your showing you get down to £0.18m., and that would mean that if you had not adopted this method of interest subsequent to 1954 it would have been at current rates?—No, it would not; it would have recovered again in the year 1955.

3152. You would not have got back to the 3 per cent. basis, would you?—Yes; that does not account for that much.

3153. I do not follow this. Once a fund is exhausted, it has gone; how do you revive it?—It is not exhausted immediately; I think that is the point.

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[Continued]

3153. But just explain this; I daresay I am being very stupid. Supposing in 1954 you had worked it out at minus £0.18m., that would have meant that you had exhausted your loan and that in fact you had to borrow £0.18m. from some other source?—Just for a matter of that date, the 31st December, 1954, yes, I think that would have been the case.

3154. How does the loan suddenly revive, so that you get the benefit of its 3 per cent.?—As from the beginning of 1955 London Transport had again lent money to the British Transport Commission.

3155. Yes; it is earning a surplus—Not only that; it is making more provision by way of depreciation than it is spending on capital.

3156. Very well; it is self-financing and producing a capital surplus?—Yes.

3157. And it has lent that to the parent. Why not at current interest rates?—One could probably argue that it should have its current interest rates; I have not taken credit for that.

3158. Is that not why you have changed from 3 per cent. to 6 per cent. in 1961 and 1962 in your table?—It is because it is quite clear that at that point there are just no funds left and they are not reviving again. They are turning into a loan from the British Transport Commission, if you like, to London Transport.

(President): Very well; I think we had better rise now. How far have you got, Mr. Fay?

(Mr. Fay): I really do not know, Sir. I shall have to take some instructions for my remaining points; I have very nearly got to the end of what I can think of for myself.

(*The Witness withdrew*)

(*Adjourned until tomorrow morning at 10.30*)

CORRIGENDA

Proceedings First Day—Wednesday, 11th January, 1961

Page 1, paragraph 2, column 2, line 2—for "objection" read "objections"
Page 1, paragraph 2, column 2, line 2—for "seconnd" read "second"

Proceedings Second Day—Tuesday, 24th January, 1961

Page 7, paragraph 2, column 2, line 12—for "used" read "fixed"
Page 7, paragraph 3, column 1, line 3—for "the" read "this"
Page 7, paragraph 4, column 1, line next last—for "the" read "this"
Page 7, paragraph 4, column 2, line next last — after "profit" insert ";"
Page 7, paragraph 5, column 1, line 9—for "within" read "between"
Page 8, paragraph 1, column 1, line 5—for "the" read "this"
Page 10, paragraph 2, column 2, line 13—for "of" (before "something") read "and"
Page 10, paragraph 6, column 2, line 3—for "circles" read "circumstances"
Page 10, paragraph 7, column 1, line 6—for "effect" read "effect"
Page 10, paragraph 7, column 1, line 9—for "Tribuanl" read "Tribunal"
Page 10, paragraph 9, column 2, line 3—for "and" read "in the"
Page 11, paragraph 1, column 2, line 6—delete "had" (before "to be")
Page 11, paragraph 2, column 2, line 4—for "decreased" read "decreases"
Page 11, paragraph 2, column 2, line 5—for "milage" read "mileage"
Page 11, paragraph 2, column 2, line 6—for "increases" read "decreases"
Page 11, paragraph 2, column 2, line 15—for "remarkably" read "remarkable"
Page 11, paragraph 3, column 2, line 16—for "£7.1m" read "7.1m. miles"
Page 11, paragraph 5, column 2, line 11—for "increased" read "increase"
Page 11, paragraph 11, column 1, line 2—delete "," after "third column"; insert "," after "also"
Page 12, paragraph 2, column 2, line 4—for "drivers" read "divers"
Page 12, paragraph 4, column 2, line 12—after "shown" insert "in the motor trade"

Page 12, paragraph 4, column 2, line 12—for "recess" read "recession"
Page 12, paragraph 5, column 2, line 3—for "to the extent that" read "To that extent"
Page 12, paragraph 6, column 2, line next last—for "vary" read "very"
Page 13, paragraph 1, column 1, line 6—for "charges" read "changes"
Page 13, paragraph 6, column 1, line 4—for "compounded" read "propounded"
Page 14, paragraph 6, column 1, line 5—for "over" read "over"
Page 15, paragraph 3, column 1, line 1—for "estimated" read "operative"
Page 15, paragraph 4, column 2, line 2—for "reasons" read "seasons"
Page 16, paragraph 9, column 1, line 8—for "charges" read "charging powers"
Page 17, paragraph 8, column 1, line 6—after "which is" add "not"
Page 17, paragraph 11, column 1, line 3—after "increased" add "or diminished"
Page 17, paragraph 15, column 2, line 1—for "£75m." read "£70m."
Page 17, paragraph 19, column 2, line 3—for "£33m." read "£3m."
Page 17, paragraph 19, column 2, line 4—for "£467m." read "£447m."
Page 17, paragraph 20, column 2, line 2—delete "it is 47 per cent."
Page 18, paragraph 3, column 1, line last—for "£10m. to £15m." read "£5m. to £10m."
Page 18, paragraph 9, column 1, line 5—after "in" insert "a"
Page 18, paragraph 9, column 1, line 6—for "years" read "year"
Page 18, paragraph 15, column 2, line 4—for "that" read "this"
Page 18, paragraph 15, column 2, line 15—for "what have you" read "other unit"
Page 19, paragraph 5, column 1, line 5—for "it" read "if"
Page 20, paragraph 6, column 1, line 1—for "of 14" read "14"
Page 21, at top of page for "Mr. Chawford" read "Mr. Crawford" and insert ", sworn" after "Mr. Arnold Godfrey Everhard"
Page 21, paragraph 14, column 1, line 4—for "future years" read "a future year"
Page 21, paragraph 14, column 2, line 4—for "substances" read "substance"

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[Continued]

Page 21, paragraph 20, column 1, lines 8 and 9—for "10 (a) to (b)" read "10 (b) to (d)"

Page 21, paragraph 20, column 1, line 9—for "(b)" read "(d)"

Page 22, paragraph 1, column 1, line 2—for "your" read "you"

Page 22, paragraph 4, column 4, lines 3 and 4—for "are as shown there" and read "as shown there"

Page 22, paragraph 10, column 1, line next last—delete "the"

Page 22, paragraph 11, column 2, line 3—before "receipts" insert "net"

Page 22, paragraph 13, column 1, line 2—for "bulget" read "budget"

Page 22, paragraph 16, column 2, line 12—for "10(b)" read "10 (d)"

Page 23, paragraph 1, column 1, line 2—for "£2m." read "£. 2m."

Page 23, paragraph 1, column 1, line last—for "charges" read "wages"

Page 23, paragraph 5, column 2, line 8—for "increase" read "increases"

Page 23, paragraph 6, column 1, line 5—after "required" insert "of"

Page 23, paragraph 6, column 2, line 5—for "£37m." read "£3.7m."

Page 23, paragraph 10, column 1, line 3—for "respect" read "receipt"

Page 23, paragraph 11, column 1, line 2—for "£1.1" read "£1.1m."

Page 23, paragraph 12, column 1, lines 5 and 6—for "labour running" read "overtime and early and"

Page 23, paragraph 14, column 1, line 4—for "Gillebaud" read "Guillebaud"

Page 23, paragraph 21, column 2, line —for "they" read "the"

Page 25, heading—delete "Mr. Philip M. Vine, sworn".

Proceedings Third Day—Wednesday, 25th January, 1961

Page 25, paragraph 2, column 2, line 5—for "coal" read "current"

Page 26, paragraph 10, column 1, line 5—for "items" read "item"

Page 26, paragraph 10, column 2, line 8—for "plant" read "premises"

Page 26, paragraph 12, column 1, line 8—for "British Transport" read "London Transport"

Page 27, paragraph 1, column 1, line 7—delete "was" (after "explain it")

Page 27, paragraph 7, column 2, line 10 — for "the occasion" read "that occasion"

Page 27, paragraph 7, column 2, line 15—for "estimate" read "estimates"

Page 27, paragraph 13, column 1, line 1—for "Exhibit AE4" read "Exhibit AES"

Page 27, bottom paragraph, column 2, line 1—for "is" read "it"

Page 28, paragraph 12, column 1, line 1—for "£2.4m." read "£2.1m."

Page 29, paragraph 7, column 1, line 2—for "(Passenger)" read "(Passenger)"

Page 29, paragraph penultimate, column 2, line last—for "minimum" read "maximum"

Page 29, bottom paragraph, column 1, line 3 — for "account" read "a count"

Page 30, paragraph 1, column 1, line 2—for "the Fifth" read "in the Fifth"

Page 30, paragraph 1, column 1, line last — after "75 miles" add "and the other categories go to all distances"

Page 30, paragraph 11, column 2, line 1—for "60" read "50"

Page 31, paragraph 10, column 1, line 9—for "8th May" read "15th January" and

Page 31, paragraph 10, column 1, line 10—for "on the 15th January" read "at stage 3"

Page 32, paragraph 10, column 1, line 5—substitute 1960 for 160

Page 32, paragraph 12, column 1, line 4—substitute 16 for 15

Page 32, paragraph 13, column 1, line 7—after "we have" insert "for example."

Page 32, paragraph 13, column 1, line 10—for "the development" read "these developments"

Page 33, paragraph 2, column 1, line 6—for "has now been" read "is now being"

Page 33, paragraph 7, column 1, line 7—for "a net" read "a total net"

Page 33, paragraph 7, column 1, line 8—for "between them" read "between the 1959 budget and actual"

Page 33, paragraph 1, column 2, line 7—for "garage" read "garages"

Page 33, paragraph 1, column 2, line 10—for "where" read "when"

Page 33, paragraph 1, column 2, line 17—for "could" read "can"

Page 34, paragraph 13, column 1, line 3—for "added" read "taken out"

Page 34, paragraph 13, column 1, lines 3/4—for "taken out" read "added"

Page 34, paragraph 5, column 2, lines 7, 13 & 16—delete comma after London

Page 35, paragraph 3, column 1, line 1—for "anteing-up" read "anteing-up"

Page 35, paragraph 16, column 1, line 2—for "esimated" read "estimated"

Page 37, paragraph 1, column 2, line 12—delete "to"

Page 37, paragraph 1, column 2, line 13—for "all the" read "of the"

Page 39, paragraph 8, column 1, line 4—for "larger" read "large"

Page 39, paragraph 8, column 1, lines 7 & 10—for "traffic" read "track"

Page 40, paragraph 9, column 2, line 4—for "2nd June" read "12th June"

Page 40, paragraph 11, column 2, line 6—for "inward" read "homeward"

Page 41, paragraph 1, column 2, line 7—for "attained" read "retained"

Page 41, paragraph 2, column 2, line 5—for "distance" read "disassimilation"

Page 41, paragraph 2, column 2, line 6—for "our friends of" read "their friends in"

Page 43, exhibit AE1, Item 4, line 2—for "or" read "and"

Page 43, exhibit AE2, Heading—for "charges" read "changes"

Page 43, exhibit AE3, Item 4, line 2—for "or" read "and"

Page 44, exhibit AE5, Note after Item 12, line 1—for "£03m." read "£0.3m."

Page 45, exhibit AE6, Head column (8) with "£m." (Sheet)

Page 52, Column 14—12 miles should read
B.H. 24. £1.19.0.
(Sheet 3) Column 15—5 miles should read 17.3%
Page 54, B.H.26, Item 3, Column 1, line 1—delete "season ticket rates"

Page 56, B.H. 28, Item 2, columns 18 & 19—before 607 & 360 add *

Page 56, B.H. 28, Item 2, Columns 18 & 19—before 21 & 10 add †

Page 57, B.H. 29, Item 3, column 1—for "(including weekly)" read "(including weekly tickets)"

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[Continued]

TABLE SWH 11

In the AE 6 calculations, interest is charged in each year on the accumulated surplus or deficit as at the end of the preceding year and on the mean increase in deficit in the year.

Example (on hypothetical figures)

		£M.
Deficit to end of previous year	£10M.	
Interest thereon	...	0.300
Net Revenue	...	Cr. 3.500
<i>Central charges:</i>		
Interest	...	Dr. 5.00
Expenses	...	Dr. 0.50
		<u>5.50</u>
Deficit in year	...	Dr. 2.00
Interest at 3% on half of deficit	£1.00M.	Dr. 0.030
Total Interest	...	<u>Dr. 0.330</u>

This way of taking a mean deficit would be valid if all items of income and outgoings came in and out in a more or less even daily flow.

The method is not valid where interest is payable half a year in arrear, as in this case.

The correct method is as follows:

Interest on deficit to end of previous year (as above)	0.300
Net Revenue		£M.		
		Cr. 3.50		
<i>Less Central Expenses</i>	...	Dr. 0.50		
		<u>3.00</u>		
<i>Less Interest (3%)</i>	...	Dr. 2.50	(i.e. other than interest due on day after close of year)	<u>0.50</u>
Mean for year: £0.25M. (Cr.) @ 3% ...		Cr. 0.007		
Total Interest Charges	Dr. <u>0.293</u>
				instead of £0.330M.

13th February, 1961

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